

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

<p>Applicant: University of Southern California (“USC”) Los Angeles, CA Los Angeles County</p> <p>Facility Type: Private University</p> <p>Project Location: Los Angeles, CA</p> <p>Accreditation: Western Association of Schools and Colleges</p>	<p>Amount Requested: \$585,000,000</p> <p>Date Requested: May 29, 2008</p> <p>Resolution Number: 256</p>																				
<p>Use of Proceeds: Bond proceeds will be used to finance various capital improvement projects as well as to refund the CEFA Series 1998A bonds. The proposed refunding is expected to generate a net present value savings of approximately \$954,854 or 3.14% over the life of the bonds.</p>																					
<p>Type of Issue: Negotiated public offering, 30-year term, fixed or variable rates or a combination thereof</p> <p>Security Loan Provisions: General obligation pledge</p> <p>Credit Enhancement: None</p> <p>Current Credit Rating: Aa1 (Moody’s)/ AA+ (S&P)</p> <p>Senior Manager: Morgan Stanley</p> <p>Bond Counsel: Hawkins, Delafield & Wood</p>																					
<p>Environmental Benefits: USC is expected to incorporate state-of-the-art technology and energy-efficient design principles into its renovation and construction projects. Additionally, the construction of the Campus Center will be built to LEED Silver Certification.</p>																					
<p>Financial Overview: Total revenues appear to have steadily increased over the review period and have outpaced the growth in expenditures. The balance sheet appears to reflect increased total assets with exceptional debt service coverage levels.</p>																					
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<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																					
<p>Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$585,000,000 for the University of Southern California subject to a bond rating of at least an “A” category by a nationally recognized rating agency and meeting the standard bond issuance guidelines for “A” category rated debt.</p>																					

STAFF SUMMARY AND RECOMMENDATION

University of Southern California (“USC”)

May 29, 2008

Resolution Number: 256

- I. **PURPOSE OF FINANCING:** In January 2007, CEFA authorized Resolution No. 244, authorizing the issuance of bonds from time to time in one or more series in the amount of \$470 million. The bond proceeds were to be used to fund several construction, renovation and upgrade projects to enhance its facilities, as well as to refund previously issued CEFA bonds. Currently, approximately \$263 million of the authorized total of \$470 million has been issued.

USC is seeking additional bond funds to alleviate additional costs of construction on the previously approved projects, to purchase two facilities, and to fund additional construction and renovation projects. Additionally, USC will refund the CEFA Series 1998A bonds, providing an approximate net present value savings of \$954,854 or 3.14%.

Projects \$563,288,764

The following projects may be purchased, constructed and/or renovated with this financing:

Purchase:

USC University Hospital and Norris Cancer Hospital – Proposed purchase of two hospitals (which are located on the USC campus) which USC intends to operate as state-of-the-art healthcare facilities. These facilities will enable USC faculty physicians to provide medical care, conduct research and train residents and medical students.

Construction:

Campus Center – Proposed construction of Campus Center will house office and support space for student organizations, multi-purpose meeting rooms, dining, and food service and admissions

Renovation:

Webb Tower – The 14-story student residence will have the interior renovated and will also have appropriate seismic retrofitting performed.

Hoffman Hall of Business – Renovation of facility will generate 79 new faculty offices and research facilities. The building’s basic infrastructure will also be upgraded to include the electrical, mechanical, telecommunications and data systems and the fire/life/safety systems.

Hoffman Medical Research Center – Current facility is one of the oldest buildings on campus and as such will need to be renovated in order to be brought up to date with current technology.

Bridge Hall – Interior renovations proposed for faculty, staff and the Dean’s offices.

Laboratories – Upgrades to various laboratories around campus.

Environmental benefits of all of the projects will include, but not be limited to:

- The Campus Center will be designed to meet or exceed LEED Silver Certification
- Installation of double-glazed windows, replacing older single-glazed windows, will reduce energy consumption
- Will incorporate state-of-the-art technology for all its infrastructural systems (i.e. plumbing, lighting, HVAC systems) and as such will be energy-efficient

Refunding31,322,334

USC intends to refund all or a portion of the CEFA Series 1998A bonds which will provide USC with an estimated net present value savings of approximately \$954,854 or 3.14%. The Series 1998A were originally used to refund USC’s Taxable Bonds, Series 1991.

Financing costs.....3,673,975

Underwriter Fee and Expenses\$2,923,975
Costs of Issuance..... 750,000

***TOTAL USES OF FUNDS* \$598,285,073**

II. FINANCIAL ANALYSIS:

University of Southern California
Statement of Activities (\$000's)
Unrestricted

	Fiscal Year Ended June 30,		
	2007	2006	2005
Operating activities:			
<i>Revenues:</i>			
Tuition and fees, net	\$ 672,865	\$ 627,015	\$ 586,800
Endowment income	68,454	67,632	55,996
Investment and other income	39,670	32,671	19,135
Net appreciation in fair value of investments	516,741	291,398	330,924
Government contracts & grants	245,463	260,924	266,411
Recovery of indirect costs	101,981	105,310	105,260
Gifts & pledges	245,105	266,673	223,973
Sales & service	31,484	30,649	29,535
Auxiliary enterprises	213,469	191,728	186,554
Professional Services Agreements	79,773	74,370	74,095
Clinical practices	88,011	94,175	81,383
Loss on the sale of plant assets	(1,473)	(852)	(2,485)
Other	90,354	72,004	68,085
Net assets released from restrictions	40,638	28,825	23,259
Total revenues	2,432,535	2,142,522	2,048,925
<i>Expenses:</i>			
Educational & general activities	1,579,127	1,471,281	1,367,531
Health care services	154,036	163,871	151,049
Depreciation	93,695	86,092	75,785
Interest on indebtedness	19,460	19,055	18,666
Loss refunding	3,026	4,335	-
Total expenses	1,849,344	1,744,634	1,613,031
Increase in net assets from operating activities	583,191	397,888	435,894
Nonoperating:			
Loss from discontinued operations of Norris Cancer Hospital	-	-	(253)
Cumulative effect of change in accounting principle	-	(61,892)	-
Affiliation with HRA	-	10,788	-
Increase in net assets	583,191	346,784	435,641
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	3,147,924	2,801,140	2,365,499
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 4,314,306	\$ 3,147,924	\$ 2,801,140

University of Southern California
Statement of Financial Position (\$000's)

	Fiscal Year Ended June 30,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
ASSETS:			
Cash and cash equivalents	\$ 430,975	\$ 436,870	\$ 448,271
Accounts receivable	56,337	62,164	57,029
Note receivable	84,803	97,082	97,226
Pledges receivable	185,174	170,215	151,082
Investments	4,071,094	3,404,679	3,042,209
Inventories, prepaid expenses & other assets	69,672	68,520	69,507
Property, plant and equipment, net	1,444,566	1,293,549	1,067,933
Total assets	\$ 6,342,621	\$ 5,533,079	\$ 4,933,257
LIABILITIES AND NET ASSETS:			
Accounts payable	\$ 71,194	\$ 73,088	\$ 60,328
Accrued liabilities	96,740	87,592	80,121
Refundable advances	23,124	24,105	19,656
Current portion of long-term debt	3,245	3,216	2,910
Deposits & deferred revenue	100,557	90,823	65,757
Actuarial liability for annuities payable	180,982	166,950	164,951
Federal student loan funds	67,718	62,779	62,566
Asset retirement obligations	82,621	78,500	-
Long-term debt	502,652	403,555	397,962
Other	9,192	9,056	7,087
Total liabilities	1,138,025	999,664	861,338
Net assets:			
Unrestricted	3,731,115	3,147,924	2,801,140
Temporarily restricted	209,520	208,009	186,499
Permanently restricted	1,266,961	1,177,482	1,084,280
TOTAL NET ASSETS	5,207,596	4,533,415	4,071,919
TOTAL LIABILITIES AND NET ASSETS	\$ 6,345,621	\$ 5,533,079	\$ 4,933,257

Financial Ratios

	Proforma (a)			
	<u>FYE 6/30/07</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Debt service coverage (x)	13.41	30.71	20.58	23.51
Debt to expendable net assets (x)	0.27	0.13	0.12	0.13
Expendable net assets to operations (x)		2.13	1.92	1.85
Margin (%)		24	19	21

(a) Recalculates 2007 results to include the impact of this proposed financing

Financial Discussion:

Total revenues appear to have steadily increased over the review period and have outpaced the growth in expenditures.

USC appears to have exhibited solid revenue growth over the review period. In FY 2007 total revenues were \$2.4 billion, a 19% increase from \$2.0 billion in FY 2005. Revenues mainly consist of net tuition and fees, gifts and pledges, auxiliary enterprises and government contracts, providing USC with a well-diversified revenue base. USC has controlled expenditures, increasing only 15% over the review period.

The balance sheet appears to reflect increased total assets with exceptional debt service coverage levels.

Financial strength appears to remain excellent. USC's financials indicated total assets have grown 29% over the review period, from \$4.9 billion in FY 2005 to \$6.3 billion in FY 2007. Investments comprised the largest category at 64% of total assets.

USC appears to have effectively managed its long-term debt as reflected in their impressive debt service coverage levels, averaging 25x over the review period. USC currently has roughly \$502 million in long-term debt as compared to over \$5.2 billion in total net assets. With this proposed financing, USC's pro forma still appears to be acceptable at 13x, indicating USC's likely ability to support the additional debt.

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III. BACKGROUND:

General:

USC is a nonprofit, privately endowed, coeducational, nonsectarian university with its principal campus located near downtown Los Angeles, California. Founded in 1880, USC is the oldest independent research and teaching university on the West Coast.

Administration:

A self-perpetuating Board of Trustees, presently comprised of approximately 50 voting members, governs USC. The Board of Trustees is responsible for the overall management of USC including its academic policy, development, long-range land use and resource planning, and supervision of financial and budgetary affairs.

The President of USC is appointed by the Board of Trustees and, as Chief Executive Officer, is charged with the principal responsibility for administration of USC. All other officers of USC, with the exception of the Chairman and Vice Chairmen, are elected by the Board of Trustees upon nomination by the President and are subject to the day-to-day direction of the President.

Accreditations and Affiliations:

USC is accredited by the Western Association of Schools and Colleges (WASC). The most recent accreditation review of USC was conducted by WASC in 1998.

USC is one of 26 private colleges and/or universities that are members of the Association of American Universities. It is also a member of the American Association of Colleges of Pharmacy; State of California Board of Pharmacy; American Association of Dental Schools; American Association for Teacher Education; American Society for Engineering Education; California Council on Teacher Education; American Association for Higher Education; American Council on Education; Association of American Colleges; Association of Independent California Colleges and Universities; College Entrance Examination Board; Council for Advancement and Support of Education; Council of Graduate Schools; Western Association of Graduate Schools; American Association of Collegiate Registrars and Admissions Officers; North American Association of Summer Sessions; National Association of College and University Business Officers; National University Extension Association; and the Association of Continuing Higher Education.

Academic Programs:

USC offers a multi-disciplinary curriculum at both the undergraduate and graduate levels. Academic programs are offered through three basic components: The College of Letters, Arts and Sciences ("LAS"); the Graduate School; and 18 professional schools. More specifically, the academic units are: Accounting, Architecture, Business Administration, Cinema-Television and Drama, Annenberg School of Communications, Dentistry, Education, Engineering, Fine Arts, Gerontology, Graduate School, Health Related Professions, Law, LAS, Medicine, Music, Pharmacy, Public Administration, Safety and Systems Management, Social Work and Urban and Regional Planning.

IV. OUTSTANDING DEBT (\$000's):

Issue:	Original Issue Amount	Amount Outstanding as of 06/30/07	Estimated Amount Outstanding After Proposed Financing
Existing Debt:			
CEFA, Series 1997A	\$ 40,085	\$ 6,158	\$ 6,158
CEFA, Series 1998A	30,360	30,360	-0-
CEFA, Series 1999	60,000	60,906	60,906
CEFA, Series 2003A	150,000	51,363	51,363
CEFA, Series 2003B	12,795	10,194	10,194
CEFA, Series 2005	66,545	69,325	69,325
CEFA, Series 2007A	263,395	266,037	266,037
USC, Series 1998	13,585	11,554	11,554
Proposed:			
CEFA, Series 2008			585,000
Total		\$ 505,897	\$ 1,060,537

V. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Religious Due Diligence
- Legal Review
- Compliance with Section 94212(b) of the Education Code – California Environmental Quality Act

VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve a Resolution in an amount not to exceed \$585,000,000 for the University of Southern California subject to a bond rating of at least an “A” category by a nationally recognized rating agency and meeting the standard bond issuance guidelines for “A” category rated debt.