

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

BOND FINANCING PROGRAM

EXECUTIVE SUMMARY

<p>Applicant: Chapman University ("Chapman") One University Place Orange, California Orange County</p> <p>Facility Type: Private University</p> <p>Project Location: One University Place, Orange, California</p> <p>Accreditation: Western Association of Schools and Colleges</p>	<p>Amount Requested: \$96,000,000</p> <p>Date Requested: June 26, 2008</p> <p>Resolution Number: 257</p>														
<p>Use of Proceeds: Bond proceeds will be used to refund the CEFA Series 2005A, 2005B and 1996 bonds. In addition, Chapman seeks to refinance two taxable bank loans.</p>															
<p>Type of Issue: Negotiated public offering, variable rates, 40 year term</p> <p>Security Loan Provision: General obligation pledge</p> <p>Credit Enhancement: Anticipated Letter of Credit from Bank of America, N.A.</p> <p>Expected Rating: Aaa (Moody's) based on Letter of Credit</p> <p>Underwriter: Banc of America Securities LLC</p> <p>Bond Counsel: Orrick, Herrington and Sutcliffe, LLP</p>															
<p>Environmental Benefits: Because this is a refinancing of existing debt, environmental benefits are not applicable to this financing.</p>															
<p>Financial Overview: Chapman appears to be continuing to post positive operating results, which seems to be supported by growth in tuition revenue over the review period. Chapman's balance sheet also appears to have continued to grow with over \$450 million in net assets. Chapman's pro-forma debt service coverage ratio is a solid 9.48x.</p>															
<p><u>Estimated Sources of funds:</u></p> <table><tr><td>Par Amount of Bonds</td><td style="text-align: right;">\$96,000,000</td></tr><tr><td> </td><td></td></tr><tr><td>Total Sources</td><td style="text-align: right;"><u>\$96,000,000</u></td></tr></table>	Par Amount of Bonds	\$96,000,000	 		Total Sources	<u>\$96,000,000</u>	<p><u>Estimated Uses of funds:</u></p> <table><tr><td>Refunding</td><td style="text-align: right;">\$87,675,000</td></tr><tr><td>Refinancing Bank Loans</td><td style="text-align: right;">7,500,000</td></tr><tr><td>Financing Costs and Fees</td><td style="text-align: right;"><u>825,000</u></td></tr><tr><td>Total Uses</td><td style="text-align: right;"><u>\$96,000,000</u></td></tr></table>	Refunding	\$87,675,000	Refinancing Bank Loans	7,500,000	Financing Costs and Fees	<u>825,000</u>	Total Uses	<u>\$96,000,000</u>
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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 \$96,000,000 for Chapman University subject to a bond rating of at least an "A" by a nationally recognized rating agency and a requirement that Chapman meet the standard bond issuance guidelines for "A" rated debt.</p>															

STAFF SUMMARY AND RECOMMENDATION

Chapman University (the “University”)

June 26, 2008

Resolution Number: 257

I. PURPOSE OF FINANCING: Chapman seeks to refund the CEFA Series 2005A, 2005B and 1996 bonds. In addition, Chapman plans to refinance two taxable bank loans.

Refunding Authority Debt..... \$87,675,000

Refund CEFA bonds, Series 2005A and 2005B79,675,000

The CEFA Series 2005A bonds financed athletic facilities, a parking structure, a residence hall and dining commons. The CEFA Series 2005B bonds refinanced a portion of the CEFA Series 1996 bonds referenced below. The current variable interest rate on the bonds ranges from 1.70% to 7.53%. Replacing these bonds with the proposed new bond issue is expected to result in a present value savings of approximately \$15 million over the life of the bonds.

Refund CEFA bonds, Series 1996\$8,000,000

The CEFA Series 1996 bonds financed several acquisition, construction, renovation, and equipment projects of various facilities throughout the campus. The fixed interest rate on the bonds ranged from 4.96% to 5.38%. Replacing these bonds with the proposed new bond issue is expected to result in a present value savings of approximately \$500,000 over the life of the bonds.

Refinance bank loans 7,500,000

Chapman seeks to refinance two bank loans, which were used to purchase the West Palm Industrial Park (WPIP) in January 2002 and the Central Orange Business Park (COBP) in November 1998.

The WPIP consists of two continuous parcels. Currently, Chapman leases approximately 35.28% of the usable space in the WPIP (excluding its parking lot) to commercial enterprises. The leases are due to expire in 2010 and 2012, respectively. Ultimately, Chapman intends to use this property for University purposes, however, no specific plans have been finalized. The remaining 64.72 % of usable space is utilized for administrative purposes (including Information Services, University Advancement and Financial Services), Chapman’s Physical Therapy School, or by University College of Chapman University (“UCCU”), a Section 501(c)(3) corporation which recently assumed (via reorganization), the adult education operations formerly conducted by Chapman. UCCU uses this space for its executive offices and administrative functions.

The COBP is comprised of four parcels, consisting of two large parcels and two small parcels. At the time of acquisition, each of these properties was used for commercial purposes. One of the large parcels was used for construction of Chapman's Marion Knott Studios of the Dodge Film and TV School, which was completed in 2006. The other large parcel was originally used for commercial purposes, but since the time of its acquisition, approximately 15% of the usable space in this parcel has been converted to University purposes (storage). Chapman plans to demolish the structures on this parcel and to construct student housing on it when the existing commercial leases on the parcel expire in 2008 and 2009.

One of the small parcels is used as parking solely for Chapman and UCCU purposes. The second small parcel is used for outside storage for a commercial company, pursuant to a month-to-month lease. The long-term plan for this parcel is to convert it into a parking lot for University use.

<i>Financing costs</i>	<i>\$825,000</i>
Costs of Issuance.....	\$575,000
Letter of Credit Fees	250,000
<i>TOTAL USES OF FUNDS</i>	<u><i>\$96,000,000</i></u>

II. FINANCIAL ANALYSIS:

CHAPMAN UNIVERSITY
Statement of Activities
Unrestricted (000's)

	<u>Fiscal Year Ended May 31,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues:			
Net tuition and fees	\$ 160,384	\$ 147,517	\$ 134,222
Endowment returns designated for operations	4,501	2,481	2,128
Other investment revenue	3,272	2,293	1,048
Private gifts, grants, and bequests	9,526	6,280	6,219
Auxiliary enterprises	19,880	16,226	15,055
Other sources	8,201	6,869	5,951
Net assets released from restrictions and transfers	4,678	629	1,664
Total revenues, gains, and other support	<u>210,442</u>	<u>182,295</u>	<u>166,287</u>
Expenses:			
Instruction	81,749	73,527	71,732
Academic support	24,175	22,142	20,251
Student services	21,191	18,728	16,917
General institutional support	32,196	28,277	27,699
Auxiliary enterprises	12,705	10,302	8,858
Total expenses	<u>172,016</u>	<u>152,976</u>	<u>145,457</u>
Increase from operating activities	38,426	29,319	20,830
Non-operating activities:			
Endowment returns net of designation for operations	14,919	8,973	4,488
Gain (loss) on sale or disposition of property and other, net	(246)	(3,439)	726
Unrealized gain (loss) on interest rate hedging related to bonds	(1,068)	4,195	-
Building gifts released from restriction	9,759	12,179	27,848
Increase from non-operating activities	<u>23,364</u>	<u>21,908</u>	<u>33,062</u>
Change in unrestricted net assets	61,790	51,227	53,892
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>239,716</u>	<u>188,489</u>	<u>134,597</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 301,506</u>	<u>\$ 239,716</u>	<u>\$ 188,489</u>

CHAPMAN UNIVERSITY
Statement of Financial Position (000's)

	As of May 31,		
	2007	2006	2005
ASSETS:			
Cash and cash equivalents	\$ 27,833	\$ 21,989	\$ 9,865
Investments	6,251	12,981	19,518
Accounts receivable, net	15,274	11,050	9,098
Current portion of contributions receivable, net	6,999	9,878	7,716
Current portion of notes receivable, net	814	784	785
Other current assets	2,828	2,834	2,459
Total current assets	59,999	59,516	49,441
Notes receivable, less current portion, net	6,683	6,329	5,720
Contributions receivable, less current portion	54,493	48,097	46,103
Other real property	18,036	18,036	17,810
Long-term investments	217,445	174,686	113,255
Plant assets	256,786	234,256	189,798
Other long-term assets	5,652	6,715	1,897
Total other assets	559,095	488,119	374,583
TOTAL ASSETS	\$ 619,094	\$ 547,635	\$ 424,024
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 26,419	\$ 27,673	\$ 21,174
Current portion of annuities payable	543	600	638
Deferred revenues and student deposits	16,307	13,262	12,349
Current portion of bonds and notes payable	3,652	2,333	2,362
Other current liabilities	499	690	688
Total current liabilities	47,420	44,558	37,211
Annuities payable, less current portion	3,518	4,147	3,933
Assets held in custody for others	249	80	185
Refundable loan programs	2,285	2,249	2,111
Bonds and notes payable, less current portion	106,599	110,245	57,533
Other long-term liabilities	4,702	3,893	3,711
Total long-term liabilities	117,353	120,614	67,473
TOTAL LIABILITIES	164,773	165,172	104,684
Net assets:			
Unrestricted	301,506	239,716	188,489
Temporarily Restricted	55,774	56,374	54,225
Permanently Restricted	97,041	86,373	76,626
TOTAL NET ASSETS	454,321	382,463	319,340
TOTAL LIABILITIES AND NET ASSETS	\$ 619,094	\$ 547,635	\$ 424,024

Financial Ratios:

	Proforma ^(a)			
	FYE May 31, 2007	2007	2006	2005
Debt service coverage (x)	9.48	9.76	10.66	12.69
Debt to expendable net assets (x)	0.33	0.31	0.38	0.25
Expendable net assets to operations (x)		2.08	1.94	1.67
Margin (%)		18.3	16.1	12.5

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

Financial Discussion:

Chapman appears to be continuing to post positive operating results, which appear to be supported by growth in tuition revenue over the review period.

Chapman reports that it relies on tuition as a primary source of its revenue. According to the audited financials provided by Chapman, in FY 2007, tuition revenue accounted for 76.2% of total revenues. Other revenue sources include investment income, and private gifts and grants, providing Chapman with a diversified revenue base. Total revenues for FY 2007 totaled approximately \$210.4 million and increased approximately 26.5% from FY 2005. Current Investments decreased from \$19.5 million in FY 2005 to \$6.2 million in FY 2007. Chapman attributes this decline to their shift toward more Cash and Cash Equivalents and away from Current Investments. Long Term investments increased from \$113.3 million to \$217.4 during the period.

Operating expenses totaled \$172.0 million in FY 2007, increasing by \$26.5 million or 12.4% as compared to the prior fiscal year. Chapman attributes this increase in operating expenses primarily to higher education and general expenses.

Chapman's balance sheet also appears to be continuing to grow with good liquidity and a solid debt service coverage.

Unrestricted net assets appear to have increased approximately 60% over the review period attributed to very strong operating results and fundraising. Chapman reports that its cash and cash equivalents increased from approximately \$9.8 million in FY 2005 to approximately \$27.8 million in FY 2007 due to a shift toward more Cash and Cash Equivalents and away from Current Investments. Debt service coverage is currently a solid 9.76x and with the proposed financing will remain relatively unchanged at 9.48x. Debt to expendable net assets ratio will increase slightly from a 0.31x to 0.33x remaining at an acceptable level.

III. BACKGROUND:

General:

Chapman University (“Chapman” or the “University”) is a nonprofit co-educational institution of higher learning, which was originally founded as Hesperian College in 1861. The college merged with California Christian College in 1934 and was renamed in that year in recognition of C.C. Chapman, a pioneering Orange County church leader, real estate investor and rancher. In 1991 the college officially changed its name to Chapman University to recognize its breadth of programs and variety of degrees. Chapman has, since its inception, maintained a relationship with the Christian Church (Disciples of Christ), although it is nondenominational and independent of church control.

Since 1958, Chapman has provided adult education courses through its University College division. On May 31, 2008, these operations were reorganized and transferred into a new nonprofit corporation that is controlled by Chapman. The new corporation, named “University College of Chapman University,” now provides these courses in 26 Academic Centers located in California and Washington.

Located in the city of Orange, in the heart of Orange County in Southern California, Chapman’s 75-acre main campus is within ten miles of ocean beaches and an hour’s drive of local mountains and deserts. The campus includes a number of buildings which date back to the early 1900s, most of which have been completely renovated, yet they retain their historic charm. The Argyros Forum, a 97,000-square-foot building completed in 1992, houses dining facilities, the bookstore, classrooms and many student services. Other facilities on campus include the Leatherby Libraries, a 100,000-square-foot library facility opened in fall 2004, which contains more than 285,000 volumes and features a study commons and coffee bar, a 60-station computer lab, 16 group study rooms, 6 multi-media preview rooms and more than 700 seats; Oliphant Hall, a 24,000-square-foot music facility, which opened in fall 2004 and houses a modern infrastructure with 14 teaching studios/practice rooms, a lecture hall, a music therapy lab, and an orchestra hall; Marion Knott Studios, housing the Lawrence and Kristina Dodge College of Film and Media Arts, which includes advanced film and television recording studios and a digital editing complex; Hashinger Hall, which houses undergraduate laboratories, classrooms, the computer center and numerous science labs; and Moulton Hall, which includes a stage and theater facility, art studios, student galleries and the Guggenheim Art Gallery. Also located on campus are the newly renovated Berteau Hall, which houses an acoustically sophisticated recital hall; and Harold Hutton Sports Center, a multi-purpose sports facility with a 3,400 seat gymnasium.

Today, Chapman University is the largest private university in Orange County. It is organized into three schools and four colleges, including: the School of Law, the Argyros School of Business and Economics, the Dodge College of Film and Media Arts, the School of Education, the College of Performing Arts, Wilkinson College of Letters and Sciences, and University College (formerly College of Lifelong Learning, and which is now operated through an affiliated corporation, University College of Chapman University).

Administration:

Chapman University is governed by a Board of Trustees (the “Board”), composed of 45 elected members, one-third of whom are elected annually for three-year terms, and 20 ex-officio members. The ex-officio members are the President of Chapman, the Trustees Emeritus, the president and immediate past president of the Alumni Board, the president of Town and Gown, the chairman of the Board of Governors, the Senior Minister of the Orange First Christian Church and the Regional

Ministers of each of three western Regions of the Christian Church (Disciples of Christ). The Board normally meets five times each year.

The Board of Trustees annually elects a chairman, an executive vice chairman, and two vice chairmen for terms of one year. In addition to an Executive Committee which acts for the board between meetings, the Board has thirteen standing committees, including the Finance, Budget and Audit Committee.

Accreditations and Affiliations:

Chapman is accredited by and is a member of the Western Association of Schools and Colleges, Accrediting Commission for Senior Colleges and Universities, the primary accrediting body for institutions of higher education in the western United States. Its teacher training and credential programs are approved by the California Commission on Teacher Credentialing of the California State Department of Education. Chapman's physical therapy program is accredited by the Commission on Accreditation in Physical Therapy Education. The school psychology program is accredited by the National Association of School Psychologists. The athletic training education program is accredited by the Commission on Accreditation of Athletic Training Education. The business programs of the George L. Argyros School of Business and Economics are accredited by the Association to Advance Collegiate Schools of Business. The juris doctorate program of the School of Law is accredited by the American Bar Association. The School of Law has also received accreditation from the Association of American Law Schools. The School of Music is accredited by the National Association of Schools of Music. The marriage and family therapy program has received candidacy accreditation from the Commission on Accreditation for Marriage and Family Therapy. Chapman is also a member of the Independent Colleges of Southern California, the College Entrance Examination Board, the Western College Association, the Association of Independent California Colleges and Universities, the American Council on Education, the American Association of Colleges for Teacher Education, and the Division of Higher Education of the Christian Church (Disciples of Christ).

Academic Programs:

Chapman University offers a broad spectrum of undergraduate, graduate, credential, and certificate programs, as well as continuing education programs. In the 2006-07 academic year, Chapman awarded degrees to a total of 1,503 students, of whom 898 received undergraduate degrees and 605 received graduate degrees (including law degrees).

IV. OUTSTANDING DEBT (000's):

Issue	Original Amount	Amount Outstanding As of 5/31/07*	Amount Outstanding after Proposed Financing
Existing:			
CEFA, Series 1996	\$40,000	\$7,314	\$-0-
CEFA, Series 1999	8,233	2,684	2,684
CEFA, Series 2000	18,000	15,810	15,810
CEFA, Series 2005A	54,700	54,442	-0-
CEFA, Series 2005B	22,575	22,472	-0-
Notes payable, various		7,529	441
Proposed:			
CEFA Revenue Bonds, Series 2008		<u> </u>	<u>96,000</u>
Total		<u>\$110,251</u>	<u>\$114,935</u>

*Includes current portion.

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 relating to California Environmental Quality Act

VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve a Resolution in an amount not to exceed \$96,000,000 for Chapman University subject to a bond rating of at least an "A" by a nationally recognized rating agency and meeting the standard bond issuance guidelines for "A" rated debt.