

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM
EXECUTIVE SUMMARY**

Applicant:	University of San Francisco ("USF") San Francisco, California San Francisco County	Amount Requested:	\$90,000,000
		Date Requested:	October 28, 2010
		Requested Loan Term:	up to 40 years
		Resolution Number:	277
Facility Type:	Private University		
Accreditation:	Western Association of Schools and Colleges		
Use of Bond Proceeds:	Bond proceeds will be used to support various planned capital expenditures and improvements at Phelan Hall, and reimbursement for renovation projects at the University Center. In addition, USF seeks to purchase and retire all or a portion of its CEFA Series 2005A and Series 2006 auction rate securities.		
Environmental Benefits:	USF is expected to incorporate several energy-efficient and environmentally beneficial design principals into its capital renovation projects which will result in increased energy efficiency. The renovation and upgrade projects include the upgrade of their 60-year old HVAC systems, replacement of boilers across campus, upgrades to the electrical distribution system, and natural light and ventilation.		
Type of Issue:	Negotiated public offering, fixed rates; \$5,000 denominations		
Credit Enhancement:	None		
Expected Credit Rating:	A3 (Moody's)		
Underwriter:	Bank of America Merrill Lynch		
Bond Counsel:	Sidley Austin, LLP		
Financial Overview:	USF shows continued revenue growth during the review period. USF's balance sheet remains solid with good debt service coverage.		
Estimated Sources of Funds (\$000):		Estimated Uses of Funds (\$000):*	
Bond Proceeds	\$90,000	Purchase and Retire CEFA Bonds	\$78,220
Premium**	3,880	Renovations	13,000
		Reimbursement	2,000
		Financing Costs	660
Total Sources	<u>\$93,880</u>	Total Uses	<u>\$93,880</u>
*Uses may include financing costs to the extent permitted by federal tax law and requested by USF.			
** Premium is the amount by which the price of the bonds exceeds its principal amount.			
Legal Review:	No information was disclosed to question the financial viability or legal integrity of this applicant.		
Staff Recommendation:	Staff recommends the Authority approve Resolution Number 277 in an amount not to exceed \$90,000,000 for the University of San Francisco subject to a bond rating of at least investment grade by a nationally recognized rating agency and meeting the standard bond issuance guidelines. Macias Gini & O'Connell, LLP, the Authority's financial analyst, and Public Financial Management, the Authority's financial advisor, concurs with the Authority's staff recommendations.		

**STAFF SUMMARY AND RECOMMENDATION
BOND FINANCING PROGRAM**

October 28, 2010

Resolution Number: 277

University of San Francisco (“USF”)

- I. PURPOSE OF FINANCING:** USF is seeking to purchase and retire all or a portion of its auction rate securities bonds due to the dramatic changes in the auction rate bond markets. The refunding will allow USF to better position themselves with a more affordable and stable rate structure and to terminate all or a portion of the insurance policy with Municipal Bond Insurance Association (MBIA).

Uses of Funds: (Each use indicated below may include financing costs to the extent permitted by federal tax law and requested by USF)

Purchase and Retire CEFA Bonds \$78,220,000

USF plans to use bond proceeds to purchase and retire all or a portion of outstanding balances of the \$22,310,000 CEFA Series 2005A and \$55,910,000 Series 2006 Auction Rate Securities which financed Campus Technology Upgrades, Construction and Renovation of USF’s science center, Kalmanovitz Hall, Fromm Hall, University Center, various dormitories as well as refunded a portion of CEFA Series 1996 bonds.

Renovation 13,000,000

Interior/Exterior Renovation to Phelan Hall – USF plans to renovate the living space, upgrade of the restrooms and shower areas including the replacement of the original piping, and reconfiguration of the entrances to the residence hall. Renovation is expected to begin in the summer of 2011.

Renewal and Replacement Projects -USF is expected to incorporate several energy-efficient and environmentally beneficial design principals into its capital renovation projects which will result in increased energy efficiency. Additionally, USF is replacing it’s boilers across both the Main and Lone Mountain Campuses.

Reimbursement 2,000,000

Interior renovations to University Center - The University Center is the primary location for student activities and dining. The building has five floors and renovations to the third, fourth, and fifth floor have been recently completed. The cost of the renovations is approximately \$7 million, of which, \$2 million will be financed using bond proceeds for project costs covered under the reimbursement agreement.

The project included renovations to the third floor office and lounge space, renovations to the fourth floor staff offices and student areas for the Intercultural Center and Student Leadership Engagement, and renovations to the fifth floor offices for the University’s Career Services Center, Center for Global Education, Health Promotion Services, Housing and Residence Life,

International Student and Scholar Services, and Student Conduct, Rights & Responsibilities.

Environmental Benefits:

USF is committed to advancing sustainability in design, renovation, and operation of campus facilities. The reduction of overall energy consumption and the use of clean energy sources are integral in creating a sustainable campus. USF continues a commitment to energy conservation and efficiency. The environmental benefits include, but are not limited to:

- upgrade of the 60-year old HVAC systems
- replacement of boilers across campus
- upgrades to the electrical distribution system
- maximizing natural light and ventilation

Financing Costs	660,000
Cost of Issuance.....	\$400,000
Underwriter's Expense	<u>260,000</u>
Total Uses of Funds	<u>\$93,880,000</u>

II. PROPOSED COVENANTS, SECURITY AND DISCLOSURES:

Staff report and recommendations include minimum requirements. Additional or more stringent covenants or disclosures may be added following consultation with Authority staff but without further notification to the Authority's Board. These covenants cannot be diluted or removed without subsequent review. If there have been modifications to the covenant proposal following the preparation of this executive summary, staff will report it at the meeting.

- ✓ **Unconditional Promise to Pay.** *Borrower agrees to pay Trustee all amounts required for principal, interest or reserve deposits and other payments and expenses designated in the Loan Agreement. All Revenues¹ and any other amounts held in a designated fund or account under the Bond Indenture are pledged to secure the full payment of the bonds.*
- ✓ **Disposition of Cash and Property Limitations.** *Borrower agrees not to sell, lease or dispose of substantially all assets unless authorized by the Loan Agreement.*
- ✓ **Comply with SEC Rule 15c2-12.** *The rule prohibits underwriters from underwriting municipal bond deals unless the issuer or borrower contractually agrees to disclose designated financial and operating information to the marketplace during the life of the bonds and to report designated "material events" such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc.*
- ✓ **Negative Pledge Against Prior Liens.** *Borrower agrees not to create or assume any Lien upon Borrower's Property other than the Permitted Encumbrances.*
- ✓ **Negative Pledge on Main Campus.**
- ✓ **Limited Permitted Encumbrances.** *Borrower is subject to a restrictive set of allowable encumbrances it may incur pursuant to the Indenture.*
- ✓ **Debt Service Coverage and Asset Test Requirement.** *A ratio measuring ability to make interest and principal payments as they become due by assessing the amount of revenue available to meet debt service payments.*
- ✓ **Additional Debt Limitation.** *Borrower agrees not to incur additional Indebtedness unless authorized by the Loan Agreement.*
- ✓ **Debt to Capitalization Requirement** *A ratio limiting how much debt can be incurred based on the liquid assets and debt then in place*
- ✓ **Pledge of Gross Revenues.** *Borrower pledges to deposit all revenues, income, receipts and money received into a Gross Revenues Fund over which the Trustee has a control deposit account agreement.*

Staff has reviewed the entirety of this financing package and finds it to be acceptable.

Not applicable for this transaction as separate and affirmative covenants:

- **Cash or Liquidity Requirements.** *Borrower promises to periodically measure the balance of their liquid assets and maintain them at a prescribed level.*
- **Debt Service Reserve.** *Account established under the Indenture to make principal and interest payments if the Borrower fails to deposit timely payments.*
- **Security Interest in Designated Property/Deed of Trust**

¹Capitalized terms are defined in the Indenture.

III. FINANCIAL STATEMENTS AND ANALYSIS:

University of San Francisco
Statement of Activities
 Unrestricted (\$000's)

	Year Ended May 31,		
	2010	2009	2008
Revenues:			
Tuition and fees	\$ 263,222	\$ 245,855	\$ 225,871
Grants and contracts	12,318	12,313	10,348
Investment Income	1,507	1,768	12,997
Contributions	4,666	7,098	7,814
Net realized and unrealized gains/(losses) on investments	3,279	(11,771)	(10,442)
Change in value of interest rate swap agreements	(1,196)	(9,035)	(5,765)
Auxiliary revenue	30,191	29,871	28,670
Other	4,934	5,018	6,698
Total revenues	318,921	281,117	276,191
Net assets released from restrictions	11,828	7,901	5,569
Total revenues and other support	330,749	289,018	281,760
Expenses:			
Instruction	115,032	113,857	105,626
Research	2,300	1,994	2,327
Public service	1,638	1,401	4,383
Academic support	25,650	27,451	25,646
Student services	28,054	27,638	26,605
Institutional support	40,030	39,418	36,294
Scholarships and fellowships	67,669	57,647	48,688
Auxiliary enterprises	28,321	30,508	26,783
Total operating expenses	308,694	299,914	276,352
Change in donor stipulations	-	(25)	(54)
(Decrease) Increase in net assets before change in accounting principle	22,055	(10,921)	5,354
Cumulative effect of change in accounting principles	-	(63,985)	-
Change in net assets	22,055	(74,931)	5,300
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	217,683	292,589	287,235
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 239,738	\$ 217,683	\$ 292,589

University of San Francisco
Statement of Financial Position (\$000's)

	As of May 31,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
ASSETS:			
Cash and cash equivalents	\$ 82,299	\$ 48,445	\$ 28,173
Accounts receivable	8,520	7,492	12,847
Contributions	18,482	18,223	22,074
Student loans	12,384	12,824	14,904
Other	9,404	11,619	11,520
Investments	197,202	193,468	265,730
Restricted investments	2,344	95	14,369
Beneficial Interest in Trust	11,434	8,716	-
Prepaid expenses and other assets	8,662	8,120	9,165
Property, plant, and equipment	311,886	311,999	296,787
Total assets	\$ 662,617	\$ 621,001	\$ 675,569
LIABILITIES AND NET ASSETS:			
Accounts payable and accrued expenses	\$ 32,623	\$ 29,190	\$ 35,858
Asset retirement obligations	2,257	2,210	2,256
Liability under split-interest agreements	2,155	2,235	2,689
Liability under interest rate swap agreements	14,690	13,495	4,460
Deferred revenue	22,486	19,225	17,962
Federal student loan funds refundable	9,825	9,574	9,673
Line of credit - school as lender program	-	-	2,204
Bonds payable	167,470	171,730	175,880
Total liabilities	251,506	247,659	250,982
Net assets:			
Unrestricted	239,738	217,683	292,589
Temporarily restricted	59,287	46,267	21,576
Permanently restricted	112,086	109,392	110,422
TOTAL NET ASSETS	411,111	373,342	424,587
TOTAL LIABILITIES AND NET ASSETS	\$ 662,617	\$ 621,001	\$ 675,569

Financial Ratios

	Proforma	<u>2010</u>	<u>2009</u>	<u>2008</u>
	<u>FYE 5/31/10 (a)</u>			
Debt service coverage (x)	2.66	3.92	2.20	2.26
Debt to expendable net assets (x)	0.89	0.57	0.65	0.56
Expendable net assets to operations (x)		0.97	0.88	1.14
Margin (%)		7	(4)	2

(a) Recalculates FY 2010 results to include the impact of this proposed financing

Financial Discussion:

USF shows continued revenue growth during the review period.

Total revenues have increased 17%, from \$281 million in fiscal year 2008 to \$330 million in fiscal year 2010. The increase in total revenues is attributable to incremental increases in student tuition and fees, which comprise 79% of USF's total revenues. The remaining total revenue includes grants and contracts, investment and investment-related income, contributions and other revenue.

USF completed their comprehensive capital campaign on May 31, 2007, exceeding their goal by \$3 million, raising \$178 million. Capital campaign funds were used for various construction and renovation projects, and to fund academic and other endowments. USF is currently fundraising for the Center for Science and Innovation (CSI) with a target of raising \$50 million by December 31, 2011. A total of \$35 million has been raised so far. In addition, over the past three fiscal years, annual cash contributions obtained from gifts, grants, and bequests from private sources averaged \$13 million.

Expenditures have increased 11% over the review period which is consistent with the growth and expansion in enrollment, instruction, academic support and USF's funded financial aid expenses. Expenditures in scholarships and fellowships have increased since the prior year, however, due to cost-cutting in other expense areas, total expenses increased by less than 3% from fiscal year 2009 to fiscal year 2010.

USF's balance sheet remains strong with good debt service coverage

In fiscal year 2010, USF's balance sheet reflects \$82.2 million in cash and cash equivalents, an increase of 34%. This increase is result of an operating budget surplus, conservative budgeting practices, and the timing of investment liquidations near fiscal year-end. The balance sheet reflects a decrease in investments, endowment and net assets since fiscal year 2008, due to the decline in the broader markets. Temporarily restricted net assets increased by \$24.6 million from fiscal year 2008 to fiscal year 2009, and \$13 million from fiscal year 2009 to fiscal year 2010. The increase in fiscal year 2009 is due to the adoption of a new accounting principle (FSP FAS 117-1)² which resulted in reclassifying \$65.5 million of expendable appreciation on donor-restricted endowment funds from unrestricted to temporarily restricted nets assets, which was offset by investment losses. The increase in fiscal year 2010 is primarily due to appreciation on endowment assets. Debt service coverage is based on operating results and appears solid with a debt service coverage ratio of 3.92x. With the new debt, USF's proforma debt service coverage remains a solid 2.66x.

² FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act and requires additional disclosure about an organization's endowment funds.

IV. BACKGROUND:

General:

University of San Francisco (USF), a California corporation, is a private non-profit educational institution founded in 1855 and is located on a 55-acre hilltop near Golden Gate Park in San Francisco, California. USF enrolls approximately 9,600 undergraduate and graduate students in its five colleges and professional schools. Of these 9,600 students, 5,800 are enrolled as undergraduates and 3,800 are enrolled as graduate students. Approximately 20% of the graduate students are enrolled in the School of Law. USF's faculty includes approximately 900 full and part-time faculty members. USF also operates four regional campuses in Santa Rosa, Cupertino, San Ramon and Sacramento.

Administration:

USF is governed by a self-perpetuating Board of Trustees, which is presently composed of 44 members. Members of the sponsoring religious body, the Society of Jesus, constitute approximately one-third of the membership while the remaining Trustees represent diverse backgrounds: religious, financial, legal, cultural, educational, and mercantile. USF welcomes persons of all religious persuasions as members of its student body, faculty and administration.

Academic Programs:

USF has a wide range of academic majors and special programs, as well as a culturally diverse student body. Specific programs offered by USF that are unique include: the dual degree program in Teacher Education, Advance Degree/Bachelor of Science and the Doctor of Nursing Practice program in the school of Nursing, and the Hospitality Management program in the McLaren School of Business.

Accreditations:

USF is accredited by the Western Association of Schools and Colleges. The School of Law is approved by the American Bar Association and is fully accredited by the Committee of Bar Examiners of the State Bar of California. It also has professional accreditation or approval from the following organizations: American Chemical Society, American Psychological Association, Computing Sciences Accrediting Board, National Collegiate Athletic Association (Division I), United States Department of Justice, American Association of Collegiate Registrars and Admissions Officers, American Association of Colleges of Nursing, American Association of Higher Education, American Council on Education, Association of American Colleges, Association of Catholic Colleges and Universities, Association of Independent California Colleges and Universities, Association of Jesuit Colleges and Universities, California Association of Colleges for Teacher Education, College Entrance Examination Board, Conference of Jesuit Law Schools, Conference of Western Law Schools, Council for the Advancement of Experiential Learning, Council of Graduate Schools in the United States, and the Law School Admissions Council.

V. OUTSTANDING DEBT:

Issue:	Original Issue Amount	Amount Outstanding as of 05/31/10	Estimated Amount Outstanding After Proposed Financing
Existing Debt:			
CEFA Series 1996	\$ 75,000,000	\$ 4,260,000	\$ 4,260,000
CEFA Series 2000	27,000,000	21,600,000	21,600,000
CEFA Series 2003	40,000,000	35,500,000	35,500,000
CEFA Series 2005A	23,410,000	22,610,000	-
CEFA Series 2005B	27,500,000	27,200,000	27,200,000
CEFA Series 2006	56,900,000	<u>56,300,000</u>	<u>-</u>
Subtotal		<u>\$ 167,470,000</u>	\$ 88,560,000
Proposed:			
CEFA Revenue Bonds, Series 2010			<u>90,000,000</u>
Total			<u><u>\$ 178,560,000</u></u>

* Includes current portion.

VI. 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

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution Number 277 in an amount not to exceed \$90,000,000 for the University of San Francisco subject to a bond rating of at least investment grade by a nationally recognized rating agency and meeting the standard bond issuance guidelines. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, and Public Financial Management, the Authority’s financial advisor, concurs with the Authority’s staff recommendations.