

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

Applicant:	University of the Pacific (“UOP”) Stockton, CA San Joaquin County	Amount Requested:	\$24,000,000
Facility Type:	Private University	Date Requested:	October 28, 2010
Project Sites:	Stockton, CA (San Joaquin County), San Francisco, CA (Alameda County), Sacramento, CA (Sacramento County), Union City (Alameda County)	Resolution Number:	278
Accreditation:	Western Association of Schools and Colleges, American Bar Association, State Bar of California		

Use of Proceeds: Bond proceeds will be used to refund all or a portion of the CEFA Series 1997A, 1998, and 2000 bonds.

Type of Issue:	Negotiated public offering, fixed rates, \$5,000 minimum denominations
Security Loan Provisions:	General obligation of UOP
Credit Enhancement:	None
Underlying Credit Rating:	A2 (Moody’s)
Senior Manager:	Prager, Sealy & Co., LLC
Bond Counsel:	Orrick, Herrington & Sutcliffe, LLP

Environmental Benefits: Because this is a refunding of existing debt, environmental benefits are not applicable to this financing.

Financial Overview: UOP’s solid growth in its revenue base has contributed to the consistent generation of operating surpluses. UOP’s balance sheet reflects good liquidity and solid debt service coverage levels.

<u>Sources of funds:</u>		<u>Uses of funds:</u>	
Par Amount of Bond	\$24,000,000	Refunding/Defeasance/Redemption	\$22,114,020
Original Issue Discount	(1,880,794)	Financing Costs	<u>493,480</u>
Released Reserve Funds	476,000		
Equity Contribution	<u>12,294</u>		
Total Sources	<u>\$22,607,500</u>	Total Uses	<u>\$22,607,500</u>

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends the Authority approve Resolution No. 278 in an amount not to exceed \$24,000,000 for the University of the Pacific 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

University of the Pacific (“UOP”)

October 28, 2010

Resolution Number: 278

I. PURPOSE OF FINANCING: UOP is seeking to refund a portion of their debt to position themselves with more affordable and stable rate structures.

Refunding \$22,114,020

UOP plans to refund all or a portion of the CEFA Series 1997A, 1998, and 2000 Bonds.

UOP participated in the issuance of CEFA Pool Bonds, Series 1997A, funds of which were used to refund the CEFA Series 1986 and 1987 bonds. The outstanding balance for the Series 1997A bonds is approximately \$475,000. UOP intends to release Reserve Funds related to these bonds for the purpose of redemption and/or defeasance of such bonds.

The outstanding balance of the CEFA Series 1998 bonds is approximately \$9,425,000. The bonds were originally issued to finance the acquisition, construction, renovation and expansion of various campus facilities.

The outstanding balance of the CEFA Series 2000 bonds is approximately \$12,710,000. Bond proceeds were originally used for the refunding of the CEFA Series 1993B bonds.

Financing costs..... \$493,480

Underwriter Fee and Expenses \$175,000

Costs of Issuance 318,480

***TOTAL USES OF FUNDS* \$22,607,500**

II. PROPOSED COVENANTS, SECURITY AND DISCLOSURES:

Executive summary 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 and interest 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.*
- ✓ **Limited Permitted Encumbrances.** *Borrower is subject to a restrictive set of allowable encumbrances it may incur pursuant to 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.*

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:

- **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.*
- **Disposition of Cash and Property Limitations.** *Borrower agrees not to sell, lease or dispose of substantially all assets unless authorized by the Loan Agreement.*
- **Negative Pledge Against Prior Liens.** *Borrower agrees not to create or assume any Lien upon Borrower's Property other than the Permitted Encumbrances.*
- **Debt Service Reserve.** *Account established under the Indenture to make principal and interest payments if the Borrower fails to deposit timely payments.*
- **Debt Service Coverage 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.*
- **Security Interest in Designated Property/Deed of Trust.**
- **Cash or Liquidity Requirements.** *Borrower promises to periodically measure the balance of their liquid assets and maintain them at a prescribed level.*
- **Debt to Capitalization Requirement.** *A ratio limiting how much debt can be incurred based on the liquid assets and debt then in place.*

¹Capitalized terms are defined in the Indenture.

III. FINANCIAL ANALYSIS:

University of Pacific
Statement of Activities
Unrestricted (\$000s)

	Year Ended June 30,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Revenues:			
Tuition and fees, net	\$ 183,916	\$ 173,990	\$ 163,378
Sales and services of auxiliary enterprises	29,625	28,428	26,128
Government grants and contracts	42,414	38,451	39,086
Private grants, gifts, and bequests	8,400	14,574	13,751
Investment return distributed	3,340	3,084	14,107
Dental clinic fees	13,177	12,885	12,483
Other	6,364	8,272	7,167
Net assets released from restrictions	8,358	10,591	2,488
Total revenues	<u>295,594</u>	<u>290,275</u>	<u>278,588</u>
Expenses:			
Instructional and departmental research	121,221	115,318	113,114
Auxiliary enterprises	27,278	28,370	25,805
Sponsored programs	34,476	36,734	35,805
Academic support	23,024	22,642	20,761
Student services	19,772	17,794	16,246
Student aid	2,872	2,556	2,342
General administration	15,917	12,576	11,741
Fund-raising activities	8,848	9,168	8,747
Operations and plant maintenance	16,595	14,818	17,085
Depreciation and amortization	14,840	14,139	12,468
Interest	6,525	6,070	5,997
Total expenses	<u>291,368</u>	<u>280,185</u>	<u>270,111</u>
Change in net assets from operations	4,226	10,090	8,477
Other changes:			
Investment return net of distributions	6,915	(17,427)	(22,208)
Gain on sale of broadcast license	-	4,750	-
Change in net assets before reclassification	11,141	(2,587)	-
Net asset reclassification based on change in law	-	(40,075)	-
Change in net assets	11,141	(42,662)	(13,731)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>204,827</u>	<u>247,489</u>	<u>261,220</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 215,968</u>	<u>\$ 204,827</u>	<u>\$ 247,489</u>

University of Pacific
Statement of Financial Position (\$000s)

	As of June 30,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
ASSETS:			
Cash and cash equivalents	\$ 20,535	\$ 13,846	\$ 12,671
Accounts receivable, net	12,491	19,683	26,126
Pledges receivable, net	6,642	8,839	13,093
Inventories, prepaid expenses and other assets	8,064	7,978	8,058
Student loans receivable, net	30,268	31,131	33,901
Investments	306,923	288,534	313,884
Fixed assets, nets	245,509	238,019	227,896
Total assets	\$ 630,432	\$ 608,030	\$ 635,629
LIABILITIES AND NET ASSETS:			
Accounts payable and accrued liabilities	\$ 27,258	\$ 23,478	\$ 29,002
Advance deposits and deferred revenue	20,342	17,806	15,294
Self-insurance reserves	5,331	3,432	3,668
Early retirement reserves	2,281	2,191	2,191
Capital lease obligations	2,152	1,943	2,064
Asset retirement obligation	6,320	6,015	6,800
Notes and bonds payable	125,363	128,450	116,590
Trust and annuity obligations	9,046	9,864	9,728
Federal student loan funds	28,491	28,183	27,766
Total liabilities	226,584	221,362	213,103
Net assets:			
Unrestricted	215,968	204,827	247,489
Temporarily restricted	41,154	39,273	33,957
Permanently restricted	146,726	142,568	141,080
TOTAL NET ASSETS	403,848	386,668	422,526
TOTAL LIABILITIES AND NET ASSETS	\$ 630,432	\$ 608,030	\$ 635,629

Financial Ratios

	Proforma	<u>2010</u>	<u>2009</u>	<u>2008</u>
	FYE 6/30/10			
Debt service coverage (x)	2.12	2.38	2.98	2.86
Debt to expendable net assets (x)	0.49	0.50	0.53	0.42
Expendable net assets to operations (x)		0.88	0.87	1.04
Margin		1%	3%	3%

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

Financial Discussion:

UOP's solid growth in its revenue base has contributed to the consistent generation of operating surpluses.

UOP continues to post positive operating results over the three-year review period. Total revenues have grown from \$278.6 million in FY 2008 to \$295.6 million in FY 2010, a 6% increase. These positive earnings are the result of higher revenues generated from a diversified revenue base. Tuition increases and a larger student body resulted in an approximate 12% increase in net tuition and fees, which represents 62% of total revenues, from \$163.4 million in FY 2008 to \$183.9 in FY 2010. In addition, increases in government grants and contracts, dental clinic fees, and sales and services of auxiliary enterprises also support UOP's operational results.

Operating expenses totaled \$291.4 million in FY 2010, increasing by approximately \$21 million or 8% as compared to expenses in FY 2008. Although expenses have increased, they remain in line with the growth of revenues, which has allowed UOP to post operating results of approximately \$4.2 million in FY 2010.

UOP's balance sheet reflects good liquidity and solid debt service coverage levels.

UOP's financial strength remains solid. Total assets in FY 2010 have increased 4% since the prior fiscal year, up from \$608.0 million in FY 2009 to \$630.4 million in FY 2010. Cash and cash equivalents have grown over the review period, from \$12.7 million in FY 2008 to \$20.5 million in FY 2010, which can be attributed to UOP's long and short-term strategy for their investment portfolio.

UOP has effectively managed its long-term debt as reflected in their three-year average debt service coverage ratio of 2.74x. In FY 2010, UOP has over \$125 million in long-term debt as compared to nearly \$404 million in total net assets. With this proposed financing, UOP's proforma debt service coverage ratio is an acceptable 2.12x, indicating UOP should be able to continue making its long-term debt obligations.

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IV. BACKGROUND:

General:

Founded in 1851, UOP is the oldest chartered university in California. From its beginnings in Santa Clara, the institution has evolved into an institution with campuses in Stockton, Sacramento, and San Francisco. UOP's main campus in Stockton offers an array of undergraduate programs in the arts and sciences, in addition to several undergraduate, graduate and professional programs, including international studies, music, pharmacy, business, engineering, and education. UOP's campus in Sacramento houses the McGeorge School of Law, one of the largest law schools in California, which offers legal training to approximately 1,100 students each year, along with a variety of legal and legal related programs to practitioners in the western United States. UOP's Dugoni School of Dentistry in San Francisco has a record of training practicing dentists, while providing clinical services to qualified clinics in the Bay Area as well as on the Stockton campus. The School of Dentistry enrolls approximately 500 students annually, including approximately 30 students in an undergraduate dental hygiene program offered at the University's Stockton campus.

Administration:

UOP is governed by a Board of Regents (the "Board") which provides general oversight and direction to the University. UOP's by-laws state that the Board shall consist of not less than 21 and not more than 33 persons. The Board by-laws have established three-year Board terms and term limits. The Board has also adopted a process for member evaluation, including an annual assessment on Board member attendance and participation.

Accreditations:

UOP has been accredited since 1949 by the Western Association of Schools and Colleges ("WASC"), the primary accrediting body for institutions of higher education in the western United States. WASC accreditation reaffirmed UOP's accreditation in July 2010. The McGeorge School of Law is accredited by the American Bar Association and the State Bar of California.

Academic Programs:

UOP comprises nine colleges and schools on three campuses in major cities of Northern California:

- In Stockton, the College of the Pacific (Arts & Sciences), Conservatory of Music, Eberhardt School of Business, Gladys L. Benerd School of Education, School of Engineering, School of Internal Studies, Thomas J. Long School of Pharmacy and Health Sciences, and Graduate School offer a variety of undergraduate, professional and graduate degrees.
- In Sacramento, the McGeorge School of Law offers the Juris Doctor degree with an array of specialist concentrations.
- In San Francisco, the Dugoni School of Dentistry offers a Doctor of Dental Surgery, post-graduate studies for graduates of foreign dental programs, advanced general dentistry, and oral and maxillofacial surgery.

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

<u>Issue:</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding as of 06/30/10</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing Debt:			
CEFA Pool, Series 1997A	\$ 9,570	\$ 475	\$ -
CEFA, Series 1998	12,500	9,425	-
CEFA, Series 2000	41,000	12,710	-
CEFA, Series 2004	11,500	8,525	8,525
CEFA, Series 2006	77,180	75,500	75,500
CEFA Equipment Loan, Series 2007	4,250	2,570	2,570
CEFA, Series 2009	15,000	15,000	15,000
Proposed:			
CEFA, Series 2010			24,000
Total		<u>\$ 124,205</u>	<u>\$ 125,595</u>

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 No. 278 in an amount not to exceed \$24,000,000 for the University of the Pacific 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.