

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

<p>Applicant: University of the Pacific (“UOP”) Stockton, CA San Joaquin County</p> <p>Facility Type: Private University</p> <p>New Project Site: San Francisco, CA (San Francisco County)</p> <p>Accreditation: Western Association of Schools and Colleges, American Dental Association Commission on Dental Accreditation</p>	<p>Amount Requested: \$40,000,000</p> <p>Date Requested: December 1, 2011</p> <p>Resolution Number: 286</p>																								
<p>Use of Proceeds: Bond proceeds will be used to refund all or a portion of the CEFA Series 1998 and 2000 bonds, as well as to finance a portion of the acquisition, relocation and renovation of the new main campus of UOP’s Dugoni School of Dentistry.</p>																									
<p style="text-align: center;">Type of Issue: Negotiated public offering, fixed rates, \$5,000 minimum denominations</p> <p>Security Loan Provisions: General obligation of UOP</p> <p>Credit Enhancement: None</p> <p>Underlying Credit Rating: A2 (Moody’s)</p> <p>Senior Manager: Prager & Co., LLC</p> <p>Bond Counsel: Orrick, Herrington & Sutcliffe, LLP</p>																									
<p>Environmental Benefits: UOP’s Dugoni School of Dentistry project is being designed to fully comply with the stringent environmental and energy efficiency standards of the State of California and the City of San Francisco, and is expected to satisfy LEED Gold requirements.</p>																									
<p>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.</p>																									
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: left;"><u>Estimated Sources of Funds:</u></th> <th colspan="2" style="text-align: left;"><u>Estimated Uses of Funds:</u></th> </tr> </thead> <tbody> <tr> <td style="width: 30%;">Par Amount of Bond</td> <td style="width: 20%; text-align: right;">\$40,000,000</td> <td style="width: 30%;">Refunding</td> <td style="width: 20%; text-align: right;">\$19,931,098</td> </tr> <tr> <td>Original Issue Discount</td> <td style="text-align: right;"><u>(3,021,937)</u></td> <td>Project Fund</td> <td style="text-align: right;">15,000,000</td> </tr> <tr> <td></td> <td></td> <td>Capitalized Interest Fund</td> <td style="text-align: right;">1,262,712</td> </tr> <tr> <td></td> <td></td> <td>Financing Costs</td> <td style="text-align: right;"><u>784,253</u></td> </tr> <tr> <td>Total Sources</td> <td style="text-align: right;"><u>\$36,978,063</u></td> <td>Total Uses</td> <td style="text-align: right;"><u>\$36,978,063</u></td> </tr> </tbody> </table>		<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>		Par Amount of Bond	\$40,000,000	Refunding	\$19,931,098	Original Issue Discount	<u>(3,021,937)</u>	Project Fund	15,000,000			Capitalized Interest Fund	1,262,712			Financing Costs	<u>784,253</u>	Total Sources	<u>\$36,978,063</u>	Total Uses	<u>\$36,978,063</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 Resolution No. 286 in an amount not to exceed \$40,000,000 for the University of the Pacific subject to a bond rating of at least investment grade by a nationally recognized rating agency. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, and Public Financial Management, the Authority’s financial advisor, concur with the Authority’s staff recommendations.</p>																									

STAFF SUMMARY AND RECOMMENDATION

University of the Pacific (“UOP”)

December 1, 2011

Resolution Number: 286

I. PURPOSE OF FINANCING: UOP is seeking financing to partially fund the acquisition, relocation and renovation of the main campus of its Dugoni School of Dentistry, and to refund a portion of their debt to position themselves with more affordable and stable rate structures.

Refunding\$19,931,098

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

The outstanding balance of the CEFA Series 1998 bonds is approximately \$8,670,000. 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 \$12,255,000. Bond proceeds were originally used for the refunding of the CEFA Series 1993B bonds.

Project Fund..... 15,000,000

UOP intends to use bond proceeds to finance a portion of the acquisition, relocation and renovation of a new campus for its Dugoni School of Dentistry. The renovated facility will provide students with state-of-the-art equipment, new furniture, materials as well as include space for the University Learning Center, which will provide program opportunities originating from UOP’s other two campuses. This comprehensive renovation project will allow UOP to expand and enhance their dentistry program as well as bolster their mission to provide a superior learning experience at each of their three campus locations.

Environmental Benefits:

The Dugoni School of Dentistry project is being designed to fully comply with the stringent environmental and energy efficiency standards of the State of California and the City of San Francisco, and is expected to satisfy LEED Gold requirements.

Capitalized Interest Fund1,262,712

Financing Costs784,253

Cost of Issuance \$336,190
Underwriter’s Discount 448,063

***TOTAL USES OF FUNDS* \$36,978,063**

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 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.

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¹Capitalized terms are defined in the Indenture.

III. FINANCIAL ANALYSIS:

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

	Year Ended June 30,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues:			
Net tuition and fees	\$ 199,661	\$ 183,916	\$ 173,990
Sales and services of auxiliary enterprises	30,574	29,625	28,428
Government grants and contracts	44,085	42,414	38,451
Private grants, gifts, and bequests	8,450	8,400	14,574
Investment return distributed	2,217	3,340	3,084
Dental clinic fees	14,240	13,177	12,885
Other	5,531	6,364	8,272
Net assets released from restrictions	8,509	7,673	10,591
Total revenues	<u>313,267</u>	<u>294,909</u>	<u>290,275</u>
Expenses:			
Instructional and departmental research	126,771	121,221	115,318
Auxiliary enterprises	29,702	27,278	28,370
Sponsored programs	36,409	34,476	36,734
Academic support	24,915	23,024	22,642
Student services	20,778	19,772	17,794
Student aid	2,089	2,872	2,556
General administration	11,716	15,916	12,576
Fund-raising activities	10,318	8,848	9,168
Operations and maintenance at plant	18,248	16,595	14,818
Depreciation and amortization	16,031	14,840	14,139
Interest	6,379	6,525	6,070
Total expenses	<u>303,356</u>	<u>291,367</u>	<u>280,185</u>
Increase in net assets from operations	9,911	3,542	10,090
Non-operating activities:			
Investment (loss)/return net of distributions	9,896	6,915	(17,427)
Gain on sale of broadcast license	-	-	4,750
Other changes	1,395	(4,265)	-
Change in net assets before reclassification	-	-	(2,587)
Net asset reclassification based on change in law	-	-	(40,075)
Change in net assets	<u>21,202</u>	<u>6,192</u>	<u>(42,662)</u>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>211,019</u>	<u>204,827</u>	<u>247,489</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 232,221</u>	<u>\$ 211,019</u>	<u>\$ 204,827</u>

University of the Pacific
Statement of Financial Position (000's)

	As of June 30,		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
ASSETS:			
Cash and cash equivalents	\$ 13,114	\$ 20,535	\$ 13,846
Accounts receivables, net	13,612	12,491	19,683
Pledges receivable, net	4,798	6,642	8,839
Inventories, prepaid expenses, and other assets	7,768	8,064	7,978
Student loans receivable, net	30,403	30,268	31,131
Investments	328,619	306,923	288,534
Real estate deposit	15,000	-	-
Fixed assets, net	255,554	245,509	238,019
Total assets	\$ 668,868	\$ 630,432	\$ 608,030
LIABILITIES AND NET ASSETS:			
Accounts payable and accrued liabilities	\$ 28,096	\$ 27,258	\$ 23,478
Advance deposits and deferred revenue	14,659	20,342	17,806
Self-insurance reserves	6,048	5,331	3,432
Early retirement reserves	2,281	2,281	2,191
Capital lease obligations	3,777	2,152	1,943
Asset retirement obligation	6,693	6,320	6,015
Notes and bonds payable	121,556	125,363	128,450
Trust and annuity obligations	9,093	9,046	9,864
Federal student loan funds	28,901	28,491	28,183
Total liabilities	221,104	226,584	221,362
Net assets:			
Unrestricted	232,221	211,019	204,827
Temporarily restricted	62,020	40,469	39,273
Permanently restricted	153,523	152,360	142,568
TOTAL NET ASSETS	447,764	403,848	386,668
TOTAL LIABILITIES AND NET ASSETS	\$ 668,868	\$ 630,432	\$ 608,030

Financial Ratios

	Proforma			
	FYE 6/30/11 (a)	<u>2011</u>	<u>2010</u>	<u>2009</u>
Debt service coverage (x)	2.72	3.29	2.60	3.35
Debt to expendable net assets (x)	0.48	0.41	0.50	0.53
Expendable net assets to operations (x)		0.97	0.86	0.87
Margin		3%	1%	3%

(a) Recalculates FY 2011 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 \$290.2 million in FY 2009 to \$313.2 million in FY 2011, an 8% 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 15% increase in net tuition and fees, from \$173.9 million in FY 2009 to \$199.6 in FY 2011. 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 \$303.3 million in FY 2011, increasing by approximately \$23 million or 8% as compared to expenses in FY 2009. Although expenses have increased, they remain in line with the growth of revenues, which has allowed UOP to post operating results of approximately \$9.9 million in FY 2011. Much of these increases are generally attributable to the growth of the student body and increases in overall costs of services, goods, and labor.

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

UOP's financial strength remains solid. Total assets in FY 2011 have increased 6% since the prior fiscal year, up from \$630.4 million in FY 2010 to \$668.8 million in FY 2011. Cash and cash equivalents experienced a decrease of 36% (\$7.4 million) but this reflects UOP's initial equity contribution of \$15 million to the Dugoni School of Dentistry renovation/relocation project. Investments have grown by 14% over the review period, from \$288.5 million in FY 2009 to \$328.6 million in FY 2011. The majority of these investments are represented by UOP's endowment, which has grown almost 35% from \$157 million to \$212 million over the review period. These returns can be attributed to improved market conditions and the 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 3.08x. In FY 2011, UOP had over \$121 million in long-term debt as compared to over \$447 million in total net assets. With this proposed financing, UOP's proforma debt service coverage ratio is an acceptable 2.72x.

Staff anticipates that UOP will continue to generate positive financial results due to its strong student demand, diversified revenue base, and continued healthy endowment and investment performance. UOP is well-positioned to continue meeting its additional long-term debt obligations.

III. 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 1,000 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 International 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.

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

<u>Issue:</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding as of 06/30/11</u>	<u>Estimated Amount Outstanding After Proposed Financing*</u>
Existing Debt:			
CEFA, Series 1998	\$ 12,500	\$ 8,945	\$ -
CEFA, Series 2000	41,000	12,500	1,104
CEFA, Series 2004	11,500	7,835	7,660
CEFA, Series 2006	77,180	74,420	73,295
CEFA Equipment Loan, Series 2007	4,250	1,964	1,964
CEFA, Series 2009	15,000	14,755	14,500
Proposed:			
CEFA, Series 2012		<u> </u>	<u>\$ 40,000</u>
Total		<u>\$ 120,419</u>	<u>\$ 138,523</u>

*As of proposed issuance date of Series 2012 Bonds, principal balance remaining outstanding

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
- Iran Contracting Act Certificate

VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution No. 286 in an amount not to exceed \$40,000,000 for the University of the Pacific subject to a bond rating of at least investment grade by a nationally recognized rating agency. Macias Gini & O’Connell, LLP, the Authority’s financial analyst, and Public Financial Management, the Authority’s financial advisor, concur with the Authority’s staff recommendations.