

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

<p>Applicant: University of San Francisco ("USF") 2130 Fulton St. San Francisco, CA 94117 San Francisco County</p> <p>Facility Type: Private University</p> <p>Project Location: San Francisco County</p> <p>Accreditation: Western Association of Schools and Colleges</p>	<p>Amount Requested: \$66,000,000</p> <p>Date Requested: December 7, 2017</p> <p>Resolution Number: 317</p>																
<p>Use of Proceeds: Loan proceeds will be used to provide tax-exempt and taxable financing to advance refund the outstanding CEFA Series 2011 Bonds and to pay costs of issuance in connection with the execution and delivery of a Master Loan Agreement (the "MLA") among the Authority, USF and First Republic Bank ("FRB" or the "Purchaser"), as the lender, and the issuance by the Authority of a promissory note (the "Note") evidencing the Authority's obligations under the MLA.</p>																	
<table style="width: 100%; border: none;"> <tr> <td style="width: 35%;">Type of Issue:</td> <td>Direct Bank Placement, tax-exempt and taxable fixed rates</td> </tr> <tr> <td>Credit Enhancement:</td> <td>None</td> </tr> <tr> <td>Expected Credit Rating:</td> <td>Unrated (please see Guidelines discussion, Page 3)</td> </tr> <tr> <td>Financing Team:</td> <td><i>Please see Exhibit 1 to identify possible conflicts of interest</i></td> </tr> </table>		Type of Issue:	Direct Bank Placement, tax-exempt and taxable fixed rates	Credit Enhancement:	None	Expected Credit Rating:	Unrated (please see Guidelines discussion, Page 3)	Financing Team:	<i>Please see Exhibit 1 to identify possible conflicts of interest</i>								
Type of Issue:	Direct Bank Placement, tax-exempt and taxable fixed rates																
Credit Enhancement:	None																
Expected Credit Rating:	Unrated (please see Guidelines discussion, Page 3)																
Financing Team:	<i>Please see Exhibit 1 to identify possible conflicts of interest</i>																
<p>Environmental Benefits: Since this transaction is a refunding of existing debt, environmental benefits are not applicable to this financing.</p>																	
<p>Financial Overview: USF's healthy growth in its revenue has contributed to consistent operating surpluses. USF maintains a strong balance sheet with a solid debt service coverage ratio of 3.41x.</p>																	
<table style="width: 100%; border: none;"> <thead> <tr> <th colspan="2" style="text-align: left;"><u>Sources of Funds:</u></th> <th colspan="2" style="text-align: left;"><u>Uses of Funds:</u></th> </tr> </thead> <tbody> <tr> <td style="width: 30%;">Par Amount of Borrowing</td> <td style="width: 20%; text-align: right;">\$66,000,000</td> <td style="width: 30%;">Refunding</td> <td style="width: 20%; text-align: right;">\$64,677,842</td> </tr> <tr> <td></td> <td></td> <td>Financing Costs</td> <td style="text-align: right;"><u>1,322,158</u></td> </tr> <tr> <td>Total Sources</td> <td style="text-align: right;"><u>\$66,000,000</u></td> <td>Total Uses</td> <td style="text-align: right;"><u>\$66,000,000</u></td> </tr> </tbody> </table>		<u>Sources of Funds:</u>		<u>Uses of Funds:</u>		Par Amount of Borrowing	\$66,000,000	Refunding	\$64,677,842			Financing Costs	<u>1,322,158</u>	Total Sources	<u>\$66,000,000</u>	Total Uses	<u>\$66,000,000</u>
<u>Sources of Funds:</u>		<u>Uses of Funds:</u>															
Par Amount of Borrowing	\$66,000,000	Refunding	\$64,677,842														
		Financing Costs	<u>1,322,158</u>														
Total Sources	<u>\$66,000,000</u>	Total Uses	<u>\$66,000,000</u>														
<p>Due Diligence: Staff has received and reviewed the Eligibility, Legal Review, Religious Due Diligence, and CEQA documentation. All documentation satisfies the Authority's requirements.</p>																	
<p>Staff Recommendation: Staff recommends the Authority approve Resolution No. 317 in an amount not to exceed \$66,000,000 for the University of San Francisco as an unrated Direct Bank Placement. Macias Gini & O'Connell LLP, the Authority's financial analyst, and KNN Public Finance, LLC, the Authority's financial advisor, concur with the Authority's staff recommendations.</p>																	

STAFF SUMMARY AND RECOMMENDATION

University of San Francisco (“USF”)

December 7, 2017

Resolution No. 317

I. PURPOSE OF FINANCING: USF is embarking on a plan to restructure its debt and take advantage of the attractive market conditions. The proceeds of the Loan will be used to refund the CEFA Series 2011 bonds, which were used to finance the renovation, remodeling, upgrading, demolition and reconstruction of certain educational facilities and improvements for the University on its Main Campus and its Lone Mountain Campus. In addition, Loan proceeds will be privately placed with First Republic Bank (“the Purchaser”) and used to pay costs relating to execution and delivery of the MLA and issuance of the Note.

Refunding **\$ 64,677,842**

USF intends to refund the outstanding balance of the CEFA Series 2011 Bonds, of which \$64,770,000 is currently outstanding. The CEFA Series 2011 bonds were originally issued in the amount of \$79,770,000. Bond proceeds were used to support various planned capital expenditures and improvements at Phelan Hall, and reimbursement for renovation projects at the University Center. In addition, bond proceeds were used to purchase and retire all or a portion of its CEFA Series 2005A and Series 2006 auction rate securities.

Financing Costs..... **1,322,158**

Costs of Issuance..... 1,322,158

TOTAL USES OF FUNDS..... **\$66,000,000**

II. GUIDELINES DISCUSSION:

The Note will evidence the Authority's obligations under the MLA, will be unrated, and will be issued directly to the bank pursuant to the MLA with FRB. The following guidelines have been applied to this financing (note that certain of the guidelines may need to be conformed to the loan structure):

- Must be privately placed with and transferred only to a "Qualified Institutional Buyer" as defined by SEC Rule 144A, promulgated under the Securities Act of 1933, except the Purchaser will be authorized to transfer to Qualified Affiliates* or a trust or other custodial arrangement established by the Purchaser or an affiliate that is an "accredited investor";
- Minimum denomination of \$250,000 (in this case, there will be a single Note in the total aggregate principal amount of the Loan);
- Unconditional Promise to Pay from Borrower;
- Investor Letter (or equivalent provisions in the bond purchase agreement) required at issuance;
- Bond transfer restrictions must be noted conspicuously on the bond itself (here, the Note constitutes the "bond" under the CEFA Act, so the transfer restrictions will be embedded in the Note); and
- Bonds must be physically delivered (here, the Note, as the bond, will be physically delivered).

All of the foregoing requirements are designed to maximize the likelihood that the unrated Note will be placed with a more sophisticated investor given the higher risk typically perceived to be associated with unrated debt. The Note is not rated at this time because the Purchaser does not require the Note to be rated. The Purchaser has indicated it is a Qualified Institutional Buyer under SEC Rule 144A and will make an independent credit determination to make the Loan to the Authority, the proceeds of which will be loaned to the Borrower. Both of the foregoing will be reflected in its investor letter (or equivalent provisions in the bond purchase agreement).

*"Qualified Affiliate" means a Person that is an "accredited investor" as defined in Rule 501 of Regulation D promulgated under the Securities Act of 1933, as amended, as in effect as of the date hereof, that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with the Purchaser. A Person shall be deemed to control another Person for the purposes of this definition if such first Person possesses, directly or indirectly, the power to direct, or cause the direction of, the management and policies of the second Person, whether through the ownership of voting securities, common directors, trustees or officers, by contract or otherwise.

III. PROPOSED COVENANTS, SECURITY AND DISCLOSURES:

The Executive Summary and recommendations include minimum requirements. Additional or more stringent covenants or disclosures may be added following consultation with Authority staff. 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 such changes at the meeting.

After reviewing USF's credit profile, including its current financial profile, prior bond transactions and considering the Purchaser's requirements, USF's financial advisor, Prager & Co. LLC., the Authority's financial advisor (KNN Public Finance, LLC or "KNN"), have concluded that the covenants listed below should be applicable to this transaction. USF's current financial situation does not suggest that additional covenants should be required by the Authority.

- ✓ **Unconditional Promise to Pay.** *Borrower agrees to pay Lender all amounts required for principal and interest and other payments and expenses designated in the Loan Agreement.*
- ✓ **Disposition of Cash and Property Limitations.** *Borrower agrees not to sell, lease or dispose of substantially all or a material portion of its assets unless authorized by the Loan Agreement.*
- ✓ **Comply with SEC Rule 15c2-12.** *The Loan is expected to be exempt from Rule 15c2-12.*
- ✓ **Negative Pledge Against Liens.** *Borrower agrees not to create or assume any Lien upon Borrower's other than the Permitted Encumbrances.*
- ✓ **Limited Permitted Encumbrances.** *Borrower is subject to a restrictive set of allowable encumbrances it may incur.*
- ✓ **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.*
- ✓ **Cash or Liquidity Requirements.** *Borrower promises to periodically measure the balance of their liquid assets and maintain them at a prescribed level.*

Staff has completed its due diligence and KNN has reviewed the financing documents associated with financing package and found these documents and proposed covenants to be acceptable. .

IV. FINANCIAL ANALYSIS:

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

	Year Ended May 31,		
	2017	2016	2015
Revenues:			
Net student tuition and fees	\$ 332,174	\$ 315,698	\$ 312,269
Grants and contracts	4,338	4,514	3,787
Investment income	1,706	1,008	1,097
Contributions	7,328	17,362	4,519
Net realized and unrealized gains (losses) on investment	10,453	(2,114)	9,775
Change in value of split-interest agreement	-	-	-
Change in value of interest rate swap agreements	3,742	(1,575)	(2,577)
Auxiliary revenue - other	7,815	7,025	6,966
Other	6,023	5,461	5,076
Net assets released from restrictions	13,475	14,012	16,334
Total revenues	387,054	361,391	357,246
Expenses:			
Instructional	181,518	174,599	166,654
Research	2,708	2,482	2,717
Public service	2,248	2,441	1,661
Academic support	36,527	35,441	37,241
Student services	50,068	50,530	43,673
Institutional support	61,481	58,637	58,822
Auxiliary enterprises	32,844	30,906	31,824
Total expenses	367,394	355,036	342,592
Increase in Net Assets	19,660	6,355	14,654
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	407,381	401,026	386,372
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 427,041	\$ 407,381	\$ 401,026

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

	As of May 31,		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
ASSETS:			
Cash and cash equivalents	\$ 89,501	\$ 82,577	\$ 96,725
Receivables			
Student accounts, net	3,684	2,445	2,475
Contributions, net	30,354	33,735	22,959
Student loans, net	9,589	9,684	9,998
Other	15,565	7,233	7,268
Investments	392,378	366,487	355,252
Beneficial interest in trusts	12,123	10,639	12,362
Prepaid expenses and other assets	6,934	6,696	8,608
Property, plant, and equipment	429,877	425,497	422,360
Total assets	\$ 990,005	\$ 944,993	\$ 938,007
LIABILITIES AND NET ASSETS:			
Accounts payable and accrued liabilities	49,226	\$ 47,488	\$ 49,257
Deferred revenue	30,684	29,085	26,003
Liabilities under split-interest agreements	1,981	2,148	1,163
Liabilities under interest rate swap agreements	14,496	18,238	16,663
Bonds payable	137,008	140,596	146,935
Note payable	19,974	21,474	23,000
Federal student loan funds refundable	10,818	10,533	11,251
Total liabilities	264,187	269,562	274,272
Net assets:			
Unrestricted	427,041	407,381	401,026
Temporarily restricted	129,637	113,437	114,724
Permanently restricted	169,140	154,613	147,985
Total net assets	725,818	675,431	663,735
Total Liabilities and Net Assets	\$ 990,005	\$ 944,993	\$ 938,007

Financial Ratios

	Proforma			
	<u>FYE 5/31/2017 (a)</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Debt service coverage (x)	2.98	3.41	2.65	3.17
Debt to expendable net assets (x)	0.36	0.28	0.31	0.33
Expendable net assets to operations (x)		1.52	1.47	1.51
Margin		5%	2%	4%

(a) Recalculates FY 2017 results to include the impact of this proposed financing

Financial Discussion:

USF's healthy growth in its revenue has contributed to consistent operating surpluses.

USF continues to post positive operating results over the three-year review period led by growth in net tuition and fees. Net student tuition and fee revenue for FY 2017 totaled approximately \$332.2 million, with an increase of approximately 6% or \$312.3 million from FY 2015. A combination of increases in tuition rates as well as increases in enrollment. According to USF, they exceeded their enrollment target in FY 2017 and enrolled nearly 200 more students than the previous year. Net tuition and fees are USF's primary revenue source, accounting for 93.0%, 92.3%, and 90.4% respectively, of total revenues for the FY's 2015, 2016, and 2017.

Unrestricted contributions fluctuated from approximately \$4.5 million in FY 2015, increasing to approximately \$17.4 million in FY 2016, and decreased to nearly \$7.3 million in FY 2017. According to USF, they recognized a significant bequest of approximately \$8 million during FY 2016 as well as a \$15 million restricted gift for renovation of athletic facilities.

Total expenses increased from approximately \$342.6 million in FY 2015 to nearly \$367.4 in FY 2017, an increase of 7%. Expense increases are largely centered around instruction and according to USF, most of instruction expense increases are due to both full-time and part-time faculty salaries, plus associated benefits. In the FY 2018 operating budget, USF has plans to improve margins and their budget incorporates cutting expenses. The Increase in Net Assets improved from nearly \$14.7 million in FY 2015 to approximately \$19.7 million in FY 2017. Although expenses have increased, they are below the growth of revenues and USF continues to post positive operating results.

USF maintains a strong balance sheet with a solid debt service coverage ratio of 3.41x.

USF's total net asset levels have increased by approximately 9.4% over the review period, from \$663.7 million in FY 2015 to \$725.8 million in FY 2017. The primary contributors to the increase in Total Assets were from realized and unrealized gains on investments, contributing to the increase in investments from just about \$355.3 million in FY 2015 to approximately \$392.4 million in FY 2017.

This increase, reflected in cumulative increases in unrestricted, temporarily restricted, and permanently restricted net assets, has allowed USF to maintain a stable asset base. USF's investment portfolio has contributed to the increase, growing nearly 10.5% from approximately \$355.3 million in FY 2015 to nearly \$392.4 million in FY 2017.

Other Assets experienced an increase from about \$7.3 million in FY 2015 to approximately \$15.6 million in FY 2015. According to USF, the most significant portion of Other Assets consist of federal direct loans that were disbursed by USF to students but the funds have not yet been received from the U.S. Department of Education.

USF's debt service coverage ratio appears strong with a solid debt service coverage ratio of 3.41x for FY 2017 and a solid proforma debt service coverage ratio of 2.98x with the proposed new debt. USF's strong balance sheet indicates they are capable of carrying the additional debt.

V. 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 11,080 undergraduate and graduate students in its five colleges and professional schools. Of these 11,080 students, 6,847 are enrolled as undergraduates and 4,233 are enrolled as graduate students. Approximately 13% of the graduate students are enrolled in the School of Law. USF’s faculty includes approximately 505 full 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.

Accreditations:

USF is fully accredited by the Western Association of Schools and Colleges. In March 2010, USF received a reaffirmation of accreditation and the next is scheduled for 2018. 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.

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.

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

<u>Issue:</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding as of 05/31/2017</u>	<u>Estimated Amount Outstanding After Proposed Financing*</u>
Existing Debt:			
CEFA, Series 2011	\$ 79,770	\$ 64,770	\$ -
CEFA, Series 2017A	75,000	73,325	73,325
 Proposed:			
CEFA, Series 2017 B&C			66,000
Total		<u>\$ 138,095</u>	<u>\$ 139,325</u>

*As of proposed issuance date of Series 2017 B&C Bonds, principal balance remaining outstanding

VII. 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 – Not required with this financing

VIII. STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution No. 317 in an amount not to exceed \$66,000,000 for the University of San Francisco as an unrated Direct Bank Placement. Macias Gini & O’Connell LLP, the Authority’s financial analyst, and KNN Public Finance, LLC the Authority’s financial advisor, concur with the Authority’s staff recommendations.

EXHIBIT 1

Financing Team

University of San Francisco

Borrower: University of San Francisco

Agent for Sale: California State Treasurer

Issuer's Counsel: Attorney General's Office

Issuer's Financial Advisor: KNN Public Finance, LLC

Issuer's Financial Analyst: Macias Gini & O'Connell LLP

Bond and Tax Counsel: Norton Rose Fulbright US LLP

Purchaser: First Republic Bank

Purchaser's Counsel: Hawkins Delafield & Wood LLP

Borrower's Financial Advisor: Prager & Co. LLC.

Trustee: TBD

Auditor to the University: Moss-Adams LLP

RESOLUTION NO. 317

RESOLUTION OF THE CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY AUTHORIZING THE ISSUANCE OF OBLIGATIONS RELATED TO THE REFINANCING OF PROJECTS AT THE EDUCATIONAL FACILITIES OF UNIVERSITY OF SAN FRANCISCO

December 7, 2017

WHEREAS, the California Educational Facilities Authority Act (the “Act”) authorizes the California Educational Facilities Authority (the “Authority”), a public instrumentality of the State of California, to borrow money to aid in the acquisition, construction, financing, or refinancing of educational facility projects and to lend money to finance and refinance educational facility projects for a “participating private college” or a “participating nonprofit entity” (both such terms as defined in the Act).

WHEREAS, University of San Francisco (the “Borrower”) is a nonprofit public benefit corporation duly incorporated and in good standing under the laws of the State of California that owns and operates educational facilities in California, consisting of a coeducational, privately endowed university.

WHEREAS, the Borrower requests the Authority to borrow from First Republic Bank (the “Lender”) an amount not to exceed \$66,000,000 and loan the money to the Borrower to refinance the acquisition and construction of the project described under the caption the “Prior Project” in Exhibit A attached hereto (the “Prior Project”).

WHEREAS, to the extent required by subdivision (b) of Section 15455 of the Government Code, the Borrower provided to the Authority documentation demonstrating that the Prior Project has complied with Division 13 (commencing with Section 21000) of the Public Resources Code or is not a “project” under that division.

NOW, THEREFORE, BE IT RESOLVED by the California Educational Facilities Authority as follows:

- (1) that the following documents (the “Approved Documents”), in the forms on file with the Authority when this Resolution was adopted, are hereby approved:
 - (a) the Master Loan Agreement (the “Loan Agreement”), among the Authority, the Lender and the Borrower, and approved by the Treasurer,
 - (b) the Assignment Agreement (the “Assignment Agreement”), between the Authority and the Lender, and
 - (c) the Promissory Note (the “Authority Note”), by the Authority for delivery to the Lender pursuant to the Loan Agreement;
- (2) that (a) the Authority Note principal amount may not exceed \$66,000,000, (b) the Authority Note must mature no later than 40 years from the delivery date; and

- (c) loan proceeds received under the Loan Agreement must be used to fund the loan to the Borrower under the Loan Agreement;
- (3) that the Authority officer executing the Approved Documents is authorized to approve:
- (a) any changes to provisions relating to interest rates, interest payment dates, registration privileges or requirements, payment places, prepayments, redemptions, Authority Note transfers, and other Authority Note provisions, and
 - (b) any insubstantial changes,
- with approval in each case conclusively evidenced by execution and delivery;
- (4) that the Acting Executive Director is directed to seek the advice of bond counsel and Authority counsel regarding changes to the Approved Document forms;
- (5) that Authority Note delivery is conditioned on approval by the Treasurer of the State of California (the "Treasurer"), as agent for sale, of the Loan Agreement and the Authority Note;
- (6) that the Authority findings in the Loan Agreement are true;
- (7) that each Authority officer is authorized to do any things on behalf of the Authority that he or she deems necessary or desirable
- (a) to make and deliver the Authority Note,
 - (b) to carry out this Resolution, and
 - (c) to perform under the Approved Documents;
- (8) that a tax certificate and agreement, certifications, and any other documents to be delivered in furtherance of this Resolution are hereby approved;
- (9) that Authority Resolution No. 2017-01 applies to the documents and actions approved in this Resolution;
- (10) that each prior action taken by Authority officers, agents, and employees to further this Resolution's purposes are hereby ratified; and
- (11) that this Resolution takes effect on the adoption date.

Date of Adoption: _____

EXHIBIT A

Prior Project

The acquisition, construction, renovation, remodeling, expansion, rehabilitation and equipping of certain educational facilities, including classrooms, administrative offices, residence halls, residential housing, athletic facilities, parking facilities, telecommunications and network systems, located at the Borrower's Main Campus, its Lone Mountain Campus (including, without limitation, its School of Education and Loyola Village Housing), its Koret Health and Recreation Center and its Law School, all in the City and County of San Francisco. The Main Campus is located within the area bounded by Masonic Avenue, Stanyan Street, Golden Gate Avenue and Fulton Street and has a street address of 2130 Fulton Street; the Lone Mountain Campus is located within the area bounded by Turk Boulevard, Anza Street, Parker Street and Masonic Avenue and has a street address of 2800 Turk Boulevard, and Loyola Village Housing comprises the housing units located at 301 to 399 Anza Street; the Koret Health and Recreation Center is located within the area bounded by Parker Street, Stanyan Street, Turk Boulevard and McAllister Street and has a street address of 222 Stanyan Street; and the Law School is located at 2199 Fulton Street, at Shrader Street.