

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

EXECUTIVE SUMMARY

Applicant:	University of Southern California Los Angeles, California Los Angeles County	Amount Requested:	\$300,000,000
Facility Type:	Private University	Loan Term:	30 Years
Accreditations:	Western Association of Schools and Colleges (For a description of this and other accreditations see page 9.)	Date Requested:	July 27, 2000
		Final Resolution Numbers:	181

Use of Bond Proceeds: Proceeds are expected to be used to fund approximately \$200 million for several new projects, including new construction and the renovation of existing facilities. The projects are anticipated to be completed over the next five years. In addition, USC is planning on issuing variable rate bonds of approximately \$100 million to refinance existing, higher fixed interest rate bonds. This proposed refinancing would result in an estimated 1.5% interest rate savings over existing debt, (3.60% versus 5.125%), given current variable interest rates.

Type of Issue:	Public offering, fixed rate (\$200 M) and variable (\$100 M)
Credit Enhancement:	None
Credit Rating:	AA+ (Standard & Poors) / Aa2 (Moody's) based on University credit.
Senior Underwriter:	Morgan Stanley Dean Witter
Bond Counsel:	Orrick, Herrington and Sutcliffe

Financial Status: The University of Southern California is one of the strongest universities in California both academically and financially. It has a solid market position fueled by a national draw for many of its academic programs. USC's income statement has posted solid net income over our review period. It also maintains a strong balance sheet featuring good liquidity, a sizeable \$1.6 billion endowment, minimal long-term debt, and strong debt service coverage.

<u>Sources of Revenue (\$000) (Unrestricted funds):</u>	<u>Amount</u>	<u>Percent</u>
Tuition & Fees	\$ 388,336	31%
Investment and other income	171,617	14%
Government contracts and grants	170,172	14%
Gifts and pledges	118,843	9%
Auxillary enterprises	111,828	9%
Professional services agreement	89,468	7%
Recovery of indirect costs	65,378	5%
Other	139,516	11%
Total Revenue	<u>\$1,255,158</u>	<u>100%</u>

<u>Sources of funds:</u>		<u>Uses of funds:</u>	
Bond Proceeds	\$300,000,000	New Projects	\$730,000,000
Borrower funds/gifts	532,070,000	Bond refinancing	100,000,000
		Financing Costs	2,070,000
Total Sources	<u>\$832,070,000</u>	Total Uses	<u>\$832,070,000</u>

Recommendation: Staff recommends the Authority approve a resolution in an amount not to exceed \$300,000,000 for the University of Southern California to issue approximately 3 series of bonds over the next five years, subject to the bonds having at least a "A" rating by a national recognized rating agency and meeting the standard bond issuance guidelines of the Authority at the time of issuance for "A" or higher rated debt.

STAFF SUMMARY AND RECOMMENDATION
University of Southern California ("The University")

July 27, 2000

Final Resolution Number: 181

I. PURPOSE OF FINANCING: As part of an overall business plan, USC's campus planning committee identified a series of priority projects in 1999 designed to improve the quality of existing facilities, (specifically those related to the quality of student life), and expand the curriculum offered to students. The committee believes that these projects will provide the University with top notch, state-of-the art facilities that will enable it to successfully compete with other educational institutions.

In addition, by refinancing existing bonds, the University is seeking to improve its cash flow through reducing interest costs, rebalancing its debt portfolio, and reducing outstanding long-term debt.

The details of these projects are described below:

New construction/renovation of existing facilities..... \$730,000,000

The University seeks to secure financing for 26 potential projects varying in cost from \$3 million to \$100 million. The estimated total cost for all projects is \$730 million (approximately \$525 million for new construction and \$205 million for renovation), with the balance of project funding to be obtained from USC's internal sources. The projects will be completed in phases, beginning in year 2000 with completion expected by the year 2005.

Major potential projects include the following:

Science and Engineering Complex – A \$100 million complex which includes an 84,000 square foot building for the School of Engineering to contain instructional space, multimedia classrooms, research laboratories, and student services space. In addition, a 100,000 square foot Molecular Biology and Center for Computational Genomics, and a 100,000 square foot Biomedical Engineering Facility will be built.

University Park Campus Center – A \$80 million facility will provide meeting room, conference rooms, lounge, study spaces, retail, dining facilities, and a campus health center.

Internationally-Themed Residential College – A \$50 million allocation for the construction of a 133,000 square foot residential college which will house 400 students, plus ancillary support space including a library, computer commons area, residential dining, and faculty master apartments.

Neurogenetic Institute: A \$50 million allocation for the construction of a 125,000 square foot building which will house a biology core and high-technology gene sequencing facility to contain laboratories, vivaria, and support space for the Keck School of Medicine's departments of neurology and surgery.

Refinance existing fixed rate bonds..... \$100,000,000

The University seeks to refinance portions of its fixed interest rate bonds, series 1997C, 1998A, and 1999, issued through this Authority. This refinancing will achieve three goals. First it will provide interest savings, by replacing 5.0% to 5.125% fixed interest rate bonds with variable interest rate bonds which are estimated to be in the 3.60% range.

Secondly, it will provide a more "balanced" debt portfolio. Currently, all of the University's long-term debt consists of only fixed interest rates. By adding variable rate bonds to its current fixed rate debt portfolio, consequently USC will be diversifying its debt portfolio. If the University chooses not to proceed with this refinancing, it may attain its variable interest rate mix by issuing variable rate bonds for a portion of the new project bonds.

Finally, this refinancing will reduce the amount of debt outstanding by approximately \$5 million. Due to the recent rise in long-term interest rates, the fixed rate bonds could be purchased at a cost below par (approximately 90 to 95 cents on the dollar). Consequently, the amount of new debt to be issued is reduced and will provide savings to the University.

Financing Costs \$ 2,070,000

Costs of Issuance..... \$270,000

Underwriter's Discount..... 1,800,000

Total Uses of Funds..... \$832,070,000

Financing Structure

- Public offering.
- No credit enhancement.
- Refinancing bonds (\$100 M). Variable rate, interest only, with a bullet payment of the entire amount due in 2028.
- New project bonds (\$200 M). Fixed rate, interest only, with a bullet payment of entire amount due in 2030. Some bonds may potentially be issued as variable rate.
- Approximately 3 series of bonds to be sold over the next five years.

II. FINANCIAL STATEMENTS AND ANALYSIS:

UNIVERSITY OF SOUTHERN CALIFORNIA
 Consolidated Statement of Activities (\$000)
 (Unrestricted)

	<u>Fiscal Year ending June 30.</u>		
	1999	1998	1997
Revenues:			
Net student tuition and fees	\$ 388,336	\$ 363,149	\$ 341,957
Investment and other income	171,617	254,102	213,521
Government contracts and grants	170,172	159,561	159,146
Recovery of indirect costs	65,378	63,919	63,554
Auxillary enterprises	111,828	107,280	104,939
Gifts and pledges	118,843	112,946	99,844
Professional services agreement	89,468	86,333	89,001
Other	<u>139,516</u>	<u>132,843</u>	<u>108,463</u>
Total Revenues	<u>1,255,158</u>	<u>1,280,133</u>	<u>1,180,425</u>
Expenses:			
Educational and general activities	865,132	816,110	785,247
Health care services	165,329	151,709	157,260
Depreciation	60,583	56,214	60,044
Interest on indebtedness	<u>15,049</u>	<u>19,800</u>	<u>19,510</u>
Total expenses	<u>1,106,093</u>	<u>1,043,833</u>	<u>1,022,061</u>
Increase in Unrestricted Net Assets	149,065	236,300	158,364
Beginning Unrestricted Net Assets	<u>1,609,502</u>	<u>1,373,202</u>	<u>1,214,838</u>
Ending Unrestricted Net Assets	<u>\$ 1,758,567</u>	<u>\$ 1,609,502</u>	<u>\$ 1,373,202</u>

(Financial statements are continued on the next page.)

UNIVERSITY OF SOUTHERN CALIFORNIA
Consolidated Balance Sheet (\$000)

	As of June 30,		
	1999	1998	1997
Assets:			
Cash and cash equivalents	\$ 134,688	\$ 140,237	\$ 99,470
Accounts receivable	86,608	89,570	75,011
Notes receivable	108,104	107,280	107,629
Pledges receivable	101,194	44,059	43,662
Investments	1,805,117	1,652,500	1,377,659
Inventories	23,295	22,382	19,064
Property, plant and equip., net	869,361	852,436	864,474
Total Assets	\$ 3,128,367	\$ 2,908,464	\$ 2,586,969
Liabilities:			
Accounts payable/accrued liabilities	\$ 82,640	\$ 80,347	\$ 83,902
Current portion of long-term debt	6,300	8,615	11,347
Deposits and deferred revenue	32,402	31,137	28,739
Liability for annuities payable	113,372	103,861	84,186
Federal student loan funds	56,505	53,654	50,039
Long-term debt	231,489	291,293	253,745
Other	29,591	24,571	23,498
Total Liabilities	552,299	593,478	535,456
Net Assets:			
Unrestricted	1,758,567	1,609,502	1,373,202
Temporarily restricted	129,567	70,047	74,346
Permanently restricted	687,934	635,437	603,965
Total Net Assets	2,576,068	2,314,986	2,051,513
Total Liabilities and Net Assets	\$ 3,128,367	\$ 2,908,464	\$ 2,586,969

Financial Ratios:

	Proforma			
	YE June 30, 1999			
Debt Service Coverage	6.68	9.50	10.03	7.61
Debt to Expendable net assets	0.23	0.13	0.18	0.19
Expendable Net Assets to Operations		1.71	1.61	1.39
Margin		12%	18%	13%

It has a solid market position fueled by a national draw for many of its academic programs.

USC's reputation, size and geographic location near downtown Los Angeles evokes strong name recognition favorable for student recruitment. Its 25,636 full-time equivalent students are strategically spread across a broad array of undergraduate, graduate, and professional programs, thus reducing the potential for severe enrollment fluctuation. USC has successfully enrolled high-achieving California students, as evidenced by its 1272 median SAT and approximately 65% in-state residency for the freshman class. Its academic reputation is bolstered by its top 25 ranking among the largest research universities in the country.

USC's income statement posts solid annual net income supported by its highly diversified revenue streams.

The University's tuition/fee revenues are strongly supplemented by various other revenue sources including investment income, government contracts, auxiliary services, and fundraising activities. These additional revenue streams have enabled the University to generate net income during the past three fiscal years ranging from \$149 million to \$236 million, along with good margins ranging from 13% to 18%. The net income during fiscal year 1998 was substantially higher than the other two fiscal years because of significant growth in "investment and other income", thus improving the University's bottom line.

Finally, it maintains a strong balance sheet featuring good liquidity, a sizeable \$1.75 billion endowment, minimal long-term debt, and excellent debt service coverage.

The University currently maintains over \$134 million in cash and cash equivalents. In addition, the growing endowment fund anchors the University's financial resources. The University has an impressive \$1.6 billion in endowment funds, aided by impressive fundraising, sizeable investment returns, as well as moderate net tuition and fee growth. This exceptional endowment fund provides the University with a sizeable and growing financial cushion. The University has effectively managed its long-term debt during our review period and can comfortably manage the proposed new debt. For example, debt to expendable net assets is only .13, expendable net assets to operations 1.71, and debt service coverage is currently an impressive 9.50. Even with the proposed \$300 million in new debt (annual debt payments of approximately \$10 million), the University's debt to expendable net assets rises to only .23, while debt service coverage is still a strong 6.68.

III. STUDENTS, COLLEGE COSTS AND FACULTY STATISTICS:

APPLICATION POOL

FALL	FRESHMAN			TRANSFERS		
	APPLIED	ADMITTED	ENROLLED	APPLIED	ADMITTED	ENROLLED
1994	11,712	8,413	2,407	4,870	2,824	1,766
1995	12,642	8,801	2,608	4,977	2,477	1,472
1996	12,790	9,193	2,855	4,449	2,181	1,373
1997	21,140	9,645	2,828	5,311	2,107	1,318
1998	21,400	9,619	2,987	5,569	2,252	1,393
1999	24,650	9,172	2,827	6,479	2,128	1,285

NEW FRESHMAN PLUS TRANSFERS (NEW UNDERGRADUATES)

FALL	APPLIED	ADMITTED	ENROLLED
1994	16,582	11,237	4,173
1995	17,619	11,278	4,080
1996	17,239	11,374	4,228
1997	26,451 (a)	11,752	4,146
1998	26,969 (a)	11,871	4,380
1999	31,129 (a)	11,300	4,112

(a) In 1996, the University adopted a two-part undergraduate application process for the class entering in the fall of 1997. Using this process, undergraduate applicants may initially apply to the University by submitting Part 1 of the application. In order to be eligible for admission, however, students must also submit the remainder of the application contained in Part 2. Of the 26,451, 26,969, and 31,129 applicants for the undergraduate class entering in the fall of 1997, 1998, and 1999 respectively, 18,613, 19,220, and 21,287 completed the application process by submitting Part 2. Due in large measure to this two-step process, the University enjoyed a much larger application pool with a stronger academic profile.

NEW GRADUATES

FALL	APPLIED	ADMITTED	ENROLLED
1994	24,536	7,873	3,611
1995	25,679	7,534	3,335
1996	26,232	7,944	3,563
1997	25,905	8,312	3,557
1998	26,334	8,707	4,001
1999	27,789	9,072	3,840

ENROLLMENT AND DEGREES

ACADEMIC YEAR	FTE ENROLLMENTS			DEGREES AWARDED		
	UNDER-GRADUATE	GRADUATE	TOTAL	BACHELOR	GRADUATE	TOTAL
1994-95	14,236	10,163	24,399	3,397	3,945	7,342
1995-96	14,231	9,953	24,184	3,302	4,016	7,318
1996-97	14,355	10,019	24,374	3,441	3,937	7,378
1997-98	14,548	10,212	24,760	3,675	4,022	7,697
1998-99	14,920	10,536	25,456	3,502	3,979	7,481
1999-00	15,092	10,544	25,636	N/A	N/A	N/A

UNDERGRADUATE TUITION, FEES, ROOM AND BOARD

Academic Year	Undergraduate Tuition and Fees	Room and Board	Undergraduate Total
1994-95	17,560	6,482	24,042
1995-96	18,598	6,438	25,036
1996-97	19,516	6,632	26,148
1997-98	20,480	6,748	27,228
1998-99	21,374	6,978	28,352
1999-00	22,636	7,282	29,918

**FACULTY
(Headcount)**

Academic Year	TENURED	OTHER	PART-TIME	TOTAL HEADCOUNT
1995-96	1,136	1,102	959	3,197
1996-97	1,130	1,201	976	3,307
1997-98	1,117	1,281	920	3,318
1998-99	1,100	1,316	1,013	3,429
1999-00	1,058	1,289	1,011	3,358

IV. BACKGROUND:

General:

The University of Southern California is a nonprofit, privately endowed, coeducational, nonsectarian university with its principal campus located near downtown Los Angeles, California. Founded in 1880, USC is the oldest independent research and teaching university in the West. In terms of enrollment, it is the largest private university in California. In the academic year 1999-00, USC provided instruction to 15,092 (FTE) undergraduate students and 10,544 (FTE) graduate, professional and other students. Now in its 119th year, USC offers degrees at the bachelor's, master's, and doctoral levels in over 200 fields of study.

Administration:

A self-perpetuating Board of Trustees presently comprised of 46 voting members governs the University. The Board of Trustees is responsible for the overall management of the University including its academic policy, University development, long-range land use and resource planning, and supervision of financial and budgetary affairs.

The President of the University is appointed by the Board of Trustees and, as Chief Executive Officer, is charged with the principal responsibility for administration of the University. All other officers of the University, with the exception of the Chairman and Vice Chairmen, are elected by the Board of Trustees upon nomination by the President and are subject to the day-to-day direction of the President.

Accreditations:

The University is accredited by the Western Association of Schools and Colleges.

The University is one of 26 private colleges and/or universities that are members of the Association of American Universities. It is also a member of the American Association of Colleges of Pharmacy; State of California Board of Pharmacy; American Association of Dental Schools; American Association for Teacher Education; American Society for Engineering Education; California Council on Teacher Education; American Association for Higher Education; American Council on Education; Association of American Colleges; Association of Independent California Colleges and Universities; College Entrance Examination Board; Council for Advancement and Support of Education; Council of Graduate Schools; Western Association of Graduate Schools; American Association of Collegiate Registrars and Admissions Officers; North American Association of Summer Sessions; National Association of College and University Business Officers; National University Extension Association; and the Association of Continuing Higher Education.

Academic Programs:

The University offers a multi-disciplinary curriculum at both the undergraduate and graduate levels. Academic programs are offered through three basic components of the University: The College of Letters, Arts and Science ("LAS"); the Graduate School; and 18 professional schools. More specifically, the academic units are: Accounting, Architecture, Business Administration, Cinema-Television and Drama, Annenberg School of Communications, Dentistry, Education, Engineering, Fine Arts, Gerontology, Graduate School, Health Related Professions, Law, LAS, Medicine, Music, Pharmacy, Public Administration, Safety and Systems Management, Social Work, and Urban and Regional Planning.

Competition:

USC's applications overlap mostly with California institutions and include UCLA, UC Berkeley, UC San Diego, UC Irvine, Pomona and Stanford.

V. OUTSTANDING DEBT:

As of June 30, 2000, USC debt totaled \$234.992 million, of which \$220.705 million (94%) was comprised of debt issued through this Authority. Following this proposed financing, USC's total debt will equal approximately \$432.007 million, with the amount of Authority debt increasing to \$417.720 million.

<u>Existing</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding as of 6/30/00</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
USC Series 1993A	\$9,015,000	\$5,090,000	\$5,090,000
USC Series 1993B	40,300,000	35,170,000	35,170,000
USC Series 1997A	40,085,000	40,085,000	40,085,000
USC Series 1997C	50,000,000	50,000,000	0
USC Series 1998 A	30,360,000	30,360,000	0
USC Series 1998 taxable bonds	13,535,000	13,535,000	13,535,000
USC Series 1999	60,000,000	60,000,000	37,375,000
Various mortgages		752,000	752,000
<i>USC Series 2000 (Proposed)</i>			<i>300,000,000</i>
Total Outstanding Debt		<u>\$234,992,000</u>	<u>\$432,007,000</u>

VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve a final resolution in an amount not to exceed \$300,000,000 for the University of Southern California to issue approximately 3 series of bonds over the next five years, subject to the bonds having at least a "A" rating by a national recognized rating agency and meeting the standard bond issuance guidelines of the Authority at the time of issuance for "A" or higher rated debt.