

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
501(c)(3) REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	Pepperdine University (Pepperdine or Borrower)	Amount Requested:	Not to exceed \$16,200,000
Applicant Description:	Pepperdine University is an independent, non-profit, privately endowed institution with approximately 7,700 students in five colleges and schools.	Type of Issue	Refunding
		Resolution Number:	10-12
		Date of Board Meeting:	March 23, 2010
Project Site:	24255 Pacific Coast Highway Malibu, CA 90263-4497	Prepared by: Andrea Kennedy and Derrick Moore	
Project Description:	Proceeds of the I-Bank bonds (2010 Bonds) will be used to refund all the outstanding tax-exempt California Educational Facilities Authority (CEFA) Revenue Bonds (Pepperdine University) Series 1999 A. The proceeds of the CEFA Bonds were used to fund the construction of a Business and Communications building, a Science Center, and a student service and recreation village.		
Public Benefits:	The Borrower estimates that the \$1.3 million present value cash flow savings from the refinancing could provide an additional 74 University students an average financial aid award of \$17,800. The savings from the refinance could also allow the Borrower to direct more of its internal resources towards funding the sponsorship of events and seminars open to the general public such as Time Management Workshops, Job Hunt Strategies and Cover Letter Workshop, and a Mock Interview Program.		
Financing Structure:			
Type of Issue:	Publicly-offered fixed-rate securities in denominations of \$5,000 or any integral multiple of \$5,000 in excess thereof.		
Tax Status:	Tax-exempt 501(c)(3) bonds		
Term:	20 years.		
Credit Enhancement:	None		
Credit Rating:	The 2010 Bonds are expected to be rated "Aa3" or higher by Moody's Investor Service based upon the stand alone rating of the Borrower.		
Est. Sources of Funds:		Est. Uses of Funds:	
Par amount of the bonds	\$15,170,000.00	Fund Escrow	\$16,348,169.80
Premium	1,567,568.90	Costs of Issuance	200,000.00
		Underwriter's Discount	187,213.73
		Contingency	2,185.37
TOTAL SOURCES	\$16,737,568.90	TOTAL USES	\$16,737,568.90
Financing Team:			
Bond and Disclosure Counsel:	Orrick, Herrington & Sutcliffe LLP		
Underwriter:	Morgan Stanley & Co. Incorporated		
Trustee:	The Bank of New York Mellon Trust Company, N.A.		
Staff Recommendation:	Staff recommends approval of Resolution 10-12 for an amount not to exceed \$16,200,000 for Pepperdine University.		

BACKGROUND AND HISTORY

Pepperdine University (Pepperdine or Borrower) is an independent, non-profit, privately endowed institution enrolling approximately 7,700 students (2009-2010 academic year) in five colleges and schools. Seaver College, the School of Law, the Graduate School of Education and Psychology, the Graziadio School of Business and Management, and the School of Public Policy are located on Pepperdine's 830-acre campus in Malibu. Graduate courses are also taught at four campuses in Southern California, permanent program facilities in Washington, D.C., and at international campuses in Germany, England, Italy, Switzerland, and Argentina. Pepperdine University is accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges, the primary accrediting body for institutions of higher education in the Western United States. During fiscal year 2009, Pepperdine awarded over \$70 million in institutionally funded financial aid.

Pepperdine was established in 1937 as Pepperdine College by George Pepperdine, the founder of Western Auto Supply Company. Mr. Pepperdine envisioned a college with the highest academic standards guided by the spiritual and ethical ideals of Christian faith. For its first 30 years, the institution was a small, mostly undergraduate college. University status was achieved in 1970 as the institution added graduate and professional schools. The University opened its current Malibu campus in 1972.

Seaver College is Pepperdine's college of letters, arts and sciences (liberal arts) offering an interdisciplinary curriculum that provides students with a broad and comprehensive education. Seaver College typically enrolls around 3,000 students and offers bachelor's degrees within 42 courses of study and master's degrees in six disciplines.

The School of Law was originally founded in 1964 as the Orange University College of Law and became affiliated with Pepperdine University in 1969. The School of Law enrolls approximately 650 full-time students, offering three degrees: the Juris Doctor (JD), the Master of Laws (LL.M.) in dispute resolution, and the Master of Dispute Resolution (MDR).

The Graduate School of Education and Psychology enrolls approximately 1,800 students and offers seven master's and five doctoral programs across its four graduate campus locations throughout Southern California and online.

The George L. Graziadio School of Business and Management offers a full-time Master of Business Administration (MBA) residency program on the Malibu campus, and part-time graduate study at four campuses throughout Southern California, as well as a learning center in Santa Clara.

The School of Public Policy, established in 1996, enrolls around 100 students and offers the Master of Public Policy degree through its two-year, full time resident program.

GOVERNANCE AND MANAGEMENT

CORPORATE OFFICERS AND BOARD MEMBERS

Andrew K. Benton	President
Charles B. Runnels	Chancellor Emeritus
Darryl L. Tippens	Provost (Chief Academic Officer)
Charles J. Pippin	Senior Vice President & Chief Operating Officer
Gary A. Hanson	Executive Vice President and Chief Operating Officer
S. Keith Hinkle	Vice President for Advancement and Public Affairs
Paul B. Lasiter	Chief Financial Officer

The current members of the Board of Regents are listed in Appendix A of this report.

PROJECT DESCRIPTION

The project (Project) involves the refunding of existing tax-exempt fixed rate revenue bonds issued by the California Educational Facilities Authority in 1999.

The Borrower intends to use the proceeds of the proposed I-Bank bonds (2010 Bonds) to pay costs of issuance and redemption of the entire outstanding principal amount (approximately \$15,870,000) of the California Educational Facilities Authority Revenue Bonds (Pepperdine University) Series 1999 A (CEFA Bonds).

The CEFA Bonds were originally used to finance the construction on the Malibu campus of (a) the Keck Science Center, a 32,000 square foot building containing 3 classrooms, 20 labs, and 6 faculty offices; (b) the Business and Communication building, a 60,000 square foot academic complex containing 34 classrooms and 70 offices for communications and business faculty, which also serves as the base of operations for the University's Public Safety department; and (c) the student recreation village project which includes an intramural gymnasium, locker rooms, and a recreational sports facility (see Appendix B—Project Photos).

FINANCING STRUCTURE

The Borrower is requesting approval for the issuance of tax-exempt, fixed-rate 501(c)(3) bonds in an amount not to exceed \$16,200,000. It is expected that the 2010 Bonds will carry a rating of at least "Aa3" or higher from Moody's Investor Service based upon the stand alone rating of the Borrower.

In no event shall the 2010 Bonds constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State shall be liable to make any appropriation for the repayment of the 2010 Bonds other than the I-Bank's limited obligation to make payments solely from the payments received by the Borrower to the I-Bank. The 2010 Bonds shall constitute a special obligation of the I-Bank, payable solely

from revenues or other sources provided for in the Loan Agreement between the I-Bank and the Borrower.

TAX-EXEMPT CONDUIT BOND FINANCING POLICIES AND ELIGIBILITY

I-Bank Bond Issuance Policies

In accordance with the I-Bank “Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities” (Policies), the I-Bank’s policy is not to “issue bonds for projects that another State of California conduit issuer was specifically created to finance.” In this case, the California Education Finance Authority (CEFA) is statutorily authorized to finance degree-granting institutions. However, CEFA’s Executive Director has confirmed to I-Bank staff that a recent legal review determined that this financing was not consistent with a portion of the CEFA statute.

Eligibility for Tax-Exempt Conduit Bond Financing

The Borrower is a independent private university religiously affiliated with the Churches of Christ. As such, bond counsel (Orrick, Herrington & Sutcliffe LLP) was asked to provide a memorandum to the I-Bank discussing the 2010 Bond’s compliance with applicable state and federal constitutional requirements and court rulings with respect to the issuance of tax-exempt bonds for a private religious school. Bond counsel obtained facts from the Borrower and concluded that the 2010 Bonds meet the tests as articulated by the California Supreme Court (Court) in California Statewide Communities Development Authority v. All Persons Interested (2007) 40 Cal.4th 788 (CSCDA), the most recent Supreme Court case on the issue of tax-exempt financings for private religious schools. In-house counsel also analyzed the issues based on information provided by bond counsel and the Borrower and concluded that the 2010 Bonds meet the tests as articulated in CSCDA allowing the 2010 Bonds to be eligible for the proposed tax-exempt financing.

CSCDA is the Court’s articulation of conditions under which tax-exempt bond proceeds may be used to finance a project for a private religious school without violating California’s Establishment Clause (Cal. Const. Art XVI, sec.5) or the U.S. Constitution First Amendment’s prohibition of “establishment of religion.” The Court’s four part test for compliance with the California Constitution is summarized as follows:

1. The bond program must serve the public interest and provide no more than an incidental benefit to religion. In order to determine whether this first part of the four part test is satisfied, the Court created an additional two part test:
 - a. The school that is the subject of the revenue bond financing must provide a broad curriculum in secular subjects (which the Court notes was not just a few, but several subjects) and
 - b. The information and coursework used to teach secular subjects must be neutral with respect to religion (meaning while the classes may contain information about religion, the courses must not advocate or oppose any religion).

2. The bond program must be available to both secular and sectarian institutions on an equal basis.
3. The bond program must prohibit use of bond proceeds for religious projects.
4. The bond program must not impose any financial burden on the government.

The Court also requires that, (a) bond proceeds cannot be used for facilities that are used for religious purposes, (b) the financing agreements must prohibit use of financed facilities for religious purposes, and (c) the government is to be paid its costs for the financing. Finally, the Court notes that where a financing meets the Court's four part test related to the California Constitution, the financing will necessarily meet the two part test developed for review of the financing under the U.S. Constitution.

As set forth in a memo from Bond Counsel to the I-Bank, and as reviewed by in-house counsel, the operations at the Borrower coupled with the structure of the 2010 Bonds creates a transaction consistent with the Court's four part test.

PUBLIC BENEFITS

The Borrower estimates the refunding of the CEFA Bonds will result in a present value cash flow savings of approximately \$1,313,835.

The Borrower expects the cash flow savings will allow it to direct more resources to fund financial aid for an additional 74 university students at an average award of \$17,800. It could also support continued funding of the Borrower's sponsorship of events and seminars open to the general public such as Time Management Workshops, Job Hunt Strategies and Cover Letter Workshop, Mock Interview Program, and allow the Borrower to support an active volunteer program both in the local community and internationally.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Describe:
TEFRA	
Date of TEFRA	Not applicable - Refunding
Publications	Not applicable - Refunding
Oral/Written Comments Received	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Issues?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, Explain: Given the religious nature of the school, the proposed financing needed to be reviewed for compliance with constitutional limitations.
ELIGIBILITY REVIEW	
Borrower meets all of the I-Bank eligibility criteria? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> 1. Project is in the State of California. 2. The Borrower is capable of meeting its obligations incurred under the proposed loan agreement and tax agreement, and, in particular as to its loan repayment obligations which secure the 2010 Bonds as reflected in the underlying rating of Aa3 given to the Borrower by Moody's Investor Service based on the Borrower's underlying rating alone (without additional security). 3. The proposed financing is appropriate for the Project. 4. The Project is consistent with any existing local or regional comprehensive plans.
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date:

RECOMMENDATION

Staff recommends approval of Resolution 10-12 for an amount not to exceed \$16,200,000 for Pepperdine University.

APPENDIX A – BOARD OF REGENTS

BOARD OF REGENTS	
Edwin L. Biggers	Chairman of the Board of Regents & Chairman of the Executive Committee
James R. Porter	Vice Chairman of the Executive Committee
Susan F. Rice	Secretary of the Board of Regents & Chairman of the Advancement and Public Affairs Committee
Frederick L. Ricker	Assistant Secretary of the Board of Regents & Chairman of the Finance and Administration Committee
William S. Banowsky	President Emeritus
Andrew K. Benton	President
Sheila K. Bost	Vice Chairman of the Student Life Committee
Charles L. Branch	Member
Virginia B. Braun	Member
Janice R. Brown	Member
Jose A Collazo	Vice Chairman
Jerry S. Cox	Member
W. L. Fletcher III	Member
Matthew K. Fong	Vice Chairman of the Investment Committee
Linda M. Gage	Member
Terry M. Giles	Member
Michelle Hiepler	Member
Glen A. Holden	Member
Gail E. Hopkins	Member
John D. Katch	Vice Chairman of the Audit Committee
Dennis Lewis	Member
Eff W. Martin	Chairman of the Student Life Committee
Michael T. Okabayashi	Member
Danny Phillips	Member
Timothy C. Phillips	Vice Chairman of the Advancement and Public Affairs Committee
Russell L. Ray, Jr.	Chairman of the Investment Committee & Vice Chairman of Academic Affairs Committee
Travis E. Reed	Chairman of the Audit committee
Carol Richards	Member
B. Joseph Rokus	Member
Charles B. Runnels	Chancellor Emeritus
Rosa M. Spivey	Member
William W. Stevens	Member
Stephen M. Stewart	Vice Chairman of the Finance and Administration Committee

Augustus Tagliaferri	Member
Thomas J. Trimble	Member
Robert L. Walker	Chairman of the Religious Standards and Membership Committees
Marilyn Warren	Member
Edward V. Yang	Member
Joe R. Barnett	Life Regents
Lodwick M. Cook	Life Regents
Robert R. Dockson	Life Regents
Hari N. Harilela	Life Regents
Jerry E. Hudson	Life Regents
Robert G. Jackson	Life Regents
Jerve M. Jones	Life Regents
Arthur G. Linkletter	Life Regents
Rosemary Raitt	Life Regents
Richard M. Scaife	Life Regents
Flora Laney Thorton	Life Regents
William R. Waugh	Life Regents
J. McDonald Williams	Life Regents
Helen M. Young	Life Regents

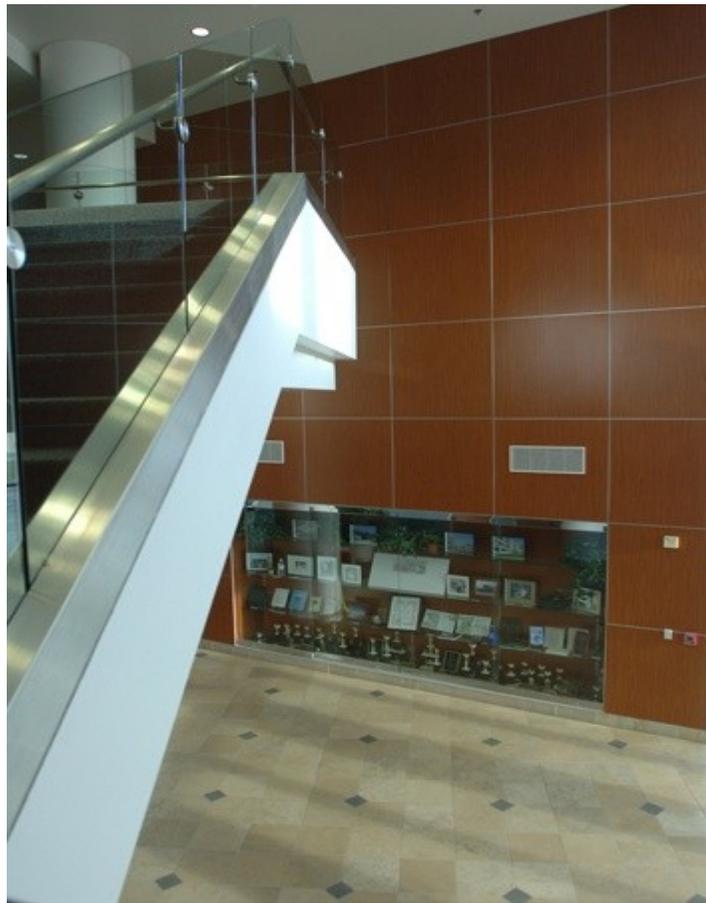
APPENDIX B – PROJECT PHOTOS



Aerial View.



The Keck Science Center.



Center for Communications and Business lobby.



Tennis Center