

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY  
BOND FINANCING PROGRAM**

**EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Chapman University ("Chapman") Orange, California Orange County</p> <p><b>Facility Type:</b> Private University</p> <p><b>Project Site:</b> Orange, California</p> <p><b>Accreditation:</b> Western Association of Schools and Colleges</p>	<p><b>Amount Requested:</b> \$100,000,000</p> <p><b>Date Requested:</b> August 25, 2011</p> <p><b>Resolution Number:</b> 284</p>																														
<p><b>Use of Proceeds:</b> Bond proceeds will be used for the acquisition, construction, expansion, rehabilitation, remodeling, renovation and equipping of various campus facilities. In addition, bond proceeds will be used to refund the CEFA Series 2000 bonds. The refunding is not being pursued for net present value savings but intended to replace the floating rate with a fixed rate obligation, allowing Chapman to shift to a more conservative capital structure.</p>																															
<p><b>Type of Issue:</b> Negotiated public offering, fixed rate, \$5,000 minimum denominations</p> <p><b>Credit Enhancement:</b> None</p> <p><b>Expected Credit Rating:</b> A2/A; Moody's/S&amp;P</p> <p><b>Underwriter:</b> Wells Fargo Securities</p> <p><b>Bond Counsel:</b> Orrick, Herrington &amp; Sutcliffe LLP</p>																															
<p><b>Environmental Benefits:</b> Chapman's projects will not be LEED certified, but several projects will comply with Title 24 and will feature energy conservation measures. Title 24 is part of the State of California's Code of Regulations governing Energy Efficiency Standards for Residential and Nonresidential Buildings.</p>																															
<p><b>Financial Overview:</b> Chapman continues to post positive operating results supported by growth in tuition revenue and strong fundraising efforts over the review period. Chapman's balance sheet continues to grow and its financial strength appears strong, with a solid pro-forma debt service coverage ratio of 4.24x.</p>																															
<p><b>Sources of Funds:</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Par Amount of Bonds</td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 60%;">100,000,000</td> </tr> <tr> <td>Original Issue Discount</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">(727,731)</td> </tr> <tr> <td>Original Issue Premium</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">1,873,539</td> </tr> <tr> <td>Equity Contribution</td> <td></td> <td style="text-align: right;">1,666,403</td> </tr> <tr> <td><b>Total Sources</b></td> <td style="text-align: right;"><b>\$</b></td> <td style="text-align: right;"><b><u>102,812,211</u></b></td> </tr> </table>	Par Amount of Bonds	\$	100,000,000	Original Issue Discount	\$	(727,731)	Original Issue Premium	\$	1,873,539	Equity Contribution		1,666,403	<b>Total Sources</b>	<b>\$</b>	<b><u>102,812,211</u></b>	<p><b>Uses of Funds:</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">Project Fund</td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 60%;">82,486,265</td> </tr> <tr> <td>Refunding</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">14,300,000</td> </tr> <tr> <td>Capitalized Interest Fund</td> <td style="text-align: right;">\$</td> <td style="text-align: right;">5,000,000</td> </tr> <tr> <td>Financing Costs</td> <td></td> <td style="text-align: right;">1,025,946</td> </tr> <tr> <td><b>Total Uses</b></td> <td style="text-align: right;"><b>\$</b></td> <td style="text-align: right;"><b><u>102,812,211</u></b></td> </tr> </table>	Project Fund	\$	82,486,265	Refunding	\$	14,300,000	Capitalized Interest Fund	\$	5,000,000	Financing Costs		1,025,946	<b>Total Uses</b>	<b>\$</b>	<b><u>102,812,211</u></b>
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<p><b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																															
<p><b>Staff Recommendation:</b> Staff recommends the Authority approve Resolution No. 284 in an amount not to exceed \$100,000,000 for Chapman University 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 &amp; O'Connell, LLP, the Authority's financial analyst, and Fieldman, Rolapp &amp; Associates Inc., the Authority's financial advisor, concur with the Authority's staff recommendations.</p>																															

STAFF SUMMARY AND RECOMMENDATION

Chapman University (“Chapman”)

August 25, 2011

Resolution Number: 284

- I. PURPOSE OF FINANCING: Chapman plans to use bond proceeds to provide financing for the acquisition, construction, expansion, equipping and improvement of educational facilities located throughout the main campus. Chapman also plans to refund the CEFA Series 2000 bonds. The refunding is not being pursued for net present value savings but is intended to replace the floating rate with a fixed rate obligation, allowing Chapman to shift to a more conservative capital structure.

Project Fund..... \$82,486,265

The Filmmakers’ Village Project

Renovation of the former California Wire & Cable Company building, retrofitted inside to contain the Commissary, which will include a 250 seat food service/restaurant, a grand living room, meeting rooms, gym, multi-purpose room, and other support uses. Included in the project is the construction of three separate 3-story dormitory buildings, providing up to 397 beds and will contain a living room and compact kitchen with dining area in each unit. Chapman also plans to build a new parking garage that will accommodate a minimum of 358 parking spaces.

Filmmakers’ Village Design Costs

Reimbursement of funds for the design, entitlement, and project management related consultation costs expended prior to the construction of the Filmmakers’ Village Project.

Knott Studio Mezzanine Project

An addition to the mezzanine level will be added to the existing Knott Studio’s “Gold Room” storage area.

Glassell Residential Complex

Renovation of a residential complex consisting of a house and a four unit multi-family structure on the historical property.

Historical (church) Property Renovation

Exterior renovation to the historic church property to be used for administrative or academic purposes.

Panther Pool Project

A new recreational pool will be constructed on the residence block for use by the resident students.

Entertainment Technology Center Relocation

The existing Entertainment Technology Center will be relocated to the West Palm Industrial Park due to the location of the future Filmmakers’ Village Project.

Historical Homes Restorations

Complete restoration of two historic homes located on the perimeter of the campus that are used as residences by faculty and staff.

Campus Infrastructure Upgrades & Replacement

Necessary replacements and upgrades to the campus wide infrastructure. Items include systems such as roofs, HVAC units, fire/life safety, electrical distribution, etc.

Smith Hall Renovation Project

Renovation to the Historic Smith Hall academic building which includes a seismic upgrade, an accessibility upgrade, a fire sprinkler system installation, historic restoration, etc.

Argyros Forum Expansion Project

Additional 15,000 square feet will be added to the existing Argyros Forum Structure. The additional space will be utilized for additional student programming space, new expanded location for the Admissions Department, and the new Faculty Athenaeum.

Moulton Center Elevator Project

The facility currently has no elevator service. The project will include the addition of an elevator to the existing two-story structure. This project will allow the second floor of Moulton Hall to become ADA compliant.

Community Law Clinics Project

The historic school house is currently being used as storage. The building will be retrofitted and renovated to be used for community law clinics.

Property Acquisition

Acquisition and renovation of certain properties around the existing Chapman campus to expand the campus.

Database Management System

Acquisition, installation and implementation of an integrated database management system that includes human resource/payroll, finance, student, financial aid and advancement functions.

**Environmental Benefits:**

Chapman’s projects will not be LEED certified, but several projects will comply with Title 24 and will feature energy conservation measures. Title 24 is part of the State of California’s Code of Regulations governing Energy Efficiency Standards for Residential and Nonresidential Buildings.

<b>Refunding.....</b>	<b>14,300,000</b>
The CEFA Series 2000 variable rate demand revenue bonds financed a 300-bed residential facility, a parking structure, and purchased additional homes in the acquisition zone as they became available. In addition, the CEFA Series 2000 bond refinanced mortgage debt incurred in purchasing nine homes for students, faculty and staff.	
<b>Capitalized Interest Fund .....</b>	<b>5,000,000</b>
<b>Financing Costs .....</b>	<b><u>1,025,946</u></b>
Underwriter’s Discount .....	\$532,146
Costs of Issuance .....	<u>493,800</u>
<b><i>TOTAL USES OF FUNDS .....</i></b>	<b><u>\$102,812,211</u></b>

## I. 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 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 such changes at the meeting.

After reviewing Chapman's credit profile, including its current financial profile, prior bond transactions and considering what the market will support, the financing team has concluded that the covenants listed below align the interests of Chapman, the Authority, and the investors and; therefore, are appropriate for this transaction. The financing team notes that these covenants contain necessary tax and legal covenants that are consistent with those that have applied to Chapman's prior bond transactions and Chapman's current financial situation does not suggest that additional covenants should be required.

- ✓ **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 Revenue 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 and "Most Favored Nation" Clause.** *Borrower is subject to a restrictive set of allowable encumbrances it may incur pursuant to the Loan Agreement. These include permitting Chapman to encumber its property, including gross revenues and real property, to secure indebtedness only if the payment obligations under the Loan Agreement are equally and totally secured as parity debt.*
- ✓ **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.*
- ✓ **Maintenance of Insurance on Property.** *Borrower agrees to maintain insurance on the property.*
- ✓ **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.*
- ✓ **Brandman University Guarantee.** *Brandman University guarantees any and all indebtedness of Chapman University due under 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.

## II. FINANCIAL ANALYSIS:

Amounts provided in the financial statements reflect the consolidated amounts for Chapman and Brandman University. Since Brandman University is a separate 501(c)(3) entity from Chapman, Brandman University will issue a Guaranty in connection with the issuance of the Bonds.

**Chapman University**  
**Statement of Activities**  
**Unrestricted**

	Year Ended May 31,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b><i>Revenues, gains, and other support:</i></b>			
Net tuition and fees	\$ 207,771,000	\$ 187,300,000	\$ 174,506,000
Endowment returns designated for operations	1,502,000	95,000	5,277,000
Other investment income	2,072,000	1,523,000	3,584,000
Private gifts, grants, and bequests	10,049,000	10,531,000	10,557,000
Auxiliary enterprises	25,919,000	20,590,000	20,268,000
Other sources	13,463,000	10,834,000	8,558,000
	<u>53,005,000</u>	<u>43,573,000</u>	<u>48,244,000</u>
Net assets released from donor restrictions	11,133,000	4,087,000	1,108,000
Total revenues, gains, and other support	<u>271,909,000</u>	<u>234,960,000</u>	<u>223,858,000</u>
<b><i>Expenses:</i></b>			
Instruction	117,124,000	106,750,000	93,587,000
Academic support	35,724,000	30,775,000	25,856,000
Student services	32,415,000	29,228,000	22,861,000
General institutional support	38,294,000	36,934,000	36,790,000
Total educational and general expenses	<u>223,557,000</u>	<u>203,687,000</u>	<u>179,094,000</u>
Auxiliary enterprises	14,254,000	11,664,000	12,571,000
Total expenses	<u>237,811,000</u>	<u>215,351,000</u>	<u>191,665,000</u>
Increase from operating activities	<u>34,098,000</u>	<u>19,609,000</u>	<u>32,193,000</u>
<b><i>Non-Operating Activities:</i></b>			
Endowment returns, net of designation for operations	8,557,000	(17,934,000)	(6,668,000)
Loss (gain) on disposition of property and other, net	(136,000)	(102,000)	501,000
Unrealized loss on interest rate swap related to bonds	(553,000)	(6,294,000)	(3,106,000)
Building gifts released from restriction	5,043,000	6,195,000	14,875,000
Loss on extinguishment of debt	-	(2,208,000)	-
Increase (decrease) from nonoperating activities	<u>12,911,000</u>	<u>(20,343,000)</u>	<u>5,602,000</u>
Change in net assets before effect of change in accounting principle	-	(734,000)	-
Cumulative effect of change in accounting principle	-	(28,810,000)	-
Change in net assets	47,009,000	(29,544,000)	37,795,000
Net assets, beginning of year	309,757,000	339,301,000	301,506,000
Net assets, end of year	<u>\$ 356,766,000</u>	<u>\$ 309,757,000</u>	<u>\$ 339,301,000</u>

**Chapman University**  
**Statement of Financial Position**

	As of May 31,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 54,975,000	\$ 28,211,000	\$ 42,105,000
Investments	23,069,000	21,279,000	1,656,000
Accounts receivable	8,564,000	7,102,000	7,280,000
Current portion of contributions receivable, net	5,631,000	5,705,000	8,645,000
Current portion of notes receivable	243,000	217,000	882,000
Other current assets	3,726,000	3,164,000	3,408,000
Total current assets	96,208,000	65,678,000	63,976,000
<b>OTHER ASSETS:</b>			
Notes receivable	7,632,000	8,047,000	7,096,000
Contributions receivable, less current portion, net	64,396,000	63,055,000	61,978,000
Other Real property	-	-	8,779,000
Long-term investments	154,531,000	133,517,000	211,703,000
Plant assets, net	380,360,000	372,576,000	298,088,000
Other long-term assets	3,589,000	1,363,000	2,461,000
Total other assets	610,508,000	578,558,000	590,105,000
Total assets	706,716,000	644,236,000	654,081,000
<b>CURRENT LIABILITIES :</b>			
Accounts payable and accrued liabilities	27,043,000	33,110,000	30,478,000
Deferred revenues and student deposits	11,336,000	9,775,000	11,243,000
Current portion of bonds and notes payable	3,430,000	3,324,000	6,861,000
Other current liabilities	890,000	923,000	984,000
Total current liabilities	42,699,000	47,132,000	49,566,000
<b>LONG-TERM LIABILITIES:</b>			
Annuities payable	2,383,000	2,534,000	3,141,000
Refundable loan programs	2,289,000	2,298,000	2,314,000
Bonds and notes payable	96,475,000	99,905,000	99,727,000
Liability related to interest swaps	6,827,000	6,274,000	-
Other long-term liabilities	19,200,000	4,337,000	4,225,000
Total long-term liabilities	127,174,000	115,348,000	109,407,000
Total liabilities	169,873,000	162,480,000	158,973,000
<b>NET ASSETS:</b>			
Unrestricted	356,766,000	309,757,000	339,301,000
Temporarily restricted	65,210,000	59,861,000	40,280,000
Permanently restricted	114,867,000	112,138,000	115,527,000
<b>TOTAL NET ASSETS</b>	536,843,000	481,756,000	495,108,000
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 706,716,000	\$ 644,236,000	\$ 654,081,000

Financial Ratios

	<b>Proforma</b>			
	<b><u>FYE 5/31/10 (a)</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Debt service coverage (x)	4.24	7.96	3.63	5.61
Debt to expendable net assets (x)	0.44	0.24	0.28	0.28
Expendable net assets to operations (x)		1.77	1.72	1.98
Margin (%)		13	8	14

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

## **Financial Discussion:**

### **Chapman continues to post positive operating results supported by growth in tuition revenue and strong fundraising efforts over the review period.**

Chapman continues to post positive operating results over the review period as evidenced by FY 2010's operating margin of approximately 13%. Revenues totaled approximately \$271.9 million in 2010, increasing from \$234.9 million or by 15.7% as compared to the prior fiscal year. According to the audited financials provided by Chapman, tuition and fees are a primary source of its revenue, accounting for 76% of total revenues in FY 2010. In addition, in FY 2009, Chapman received a conditional pledge to build a Performing Arts Center totaling approximately \$25 million. As of May 31, 2010, Chapman has received \$15 million of the pledge. Other revenue sources include endowment returns designated for operations, investment income, private gifts, grants and bequests, and Auxiliary enterprises, providing Chapman with a diversified revenue base.

Operating expenses totaled \$237.8 million in FY 2010, increasing from \$215.4 million or by 10.4% as compared to the prior fiscal year. Chapman attributes the increase primarily to the continued growth of full-time enrollment and the need for additional new faculty, programs, and a new residence hall.

### **Chapman's balance sheet shows significant growth and its financial strength appears strong, with a solid debt service coverage ratio.**

Chapman's balance sheet shows significant growth, and its financial strength appears strong. Unrestricted net assets appear to have increased approximately 5% over the review period, which can be attributed to Chapman's very strong operating results and fundraising efforts. According to Chapman, the cash and cash equivalents increased from approximately \$42.1 million in FY 2008 to approximately \$54.9 million in FY 2010 due to a receipt of a \$15 million gift held in cash equivalents (treasury bills). In FY 2009, Chapman decreased its cash and cash equivalents holdings and invested in current investments, which mainly contributed to the significant change from \$1.6 million in FY 2008 to approximately \$23.1 million in FY 2010 in current investments.

According to Chapman, long-term investments decreased from approximately \$211.7 million in FY 2008 to \$154.5 million in FY 2010 due to market conditions and transfers out of quasi-endowment funds for plant projects. Chapman reports as funding was moved from quasi-endowment to plant, funds were moved from long-term to current investments.

In FY 2009, Chapman implemented a new accounting principle (FSP FAS 117-1)<sup>1</sup>, which resulted in a one-time accounting change, reclassifying \$28.8 million of net assets to temporarily restricted from unrestricted net assets, and Chapman refined their definition of endowment net assets for FY 2008, adjusting pledges receivable, annuities and life income funds, plant assets, and other designated funds which were previously included in endowment net assets. Debt service coverage ratio is currently a solid 7.96x and with the proposed financing will remain strong at 4.24x. In addition, the debt to expendable net assets ratio will increase slightly from a 0.24x to 0.44x.

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<sup>1</sup> FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act and requires additional disclosure about an organization's endowment funds.

### III. BACKGROUND

#### **General:**

Founded in 1861 as a Hesperian College, Chapman University (“Chapman”) is a non-profit co-educational institution of higher learning. The college merged with California Christian College in 1934 and was renamed in recognition of C.C. Chapman, a pioneering Orange County leader, real estate investor and rancher. In 1991, the college officially changed its name to Chapman University to recognize its breadth of programs and variety of degrees. Located in the city of Orange, CA, Chapman’s 80-acre main campus is within ten miles of ocean beaches and an hour’s drive of local mountains and deserts. The campus includes a number of buildings which date back to the early 1900s, most of which have been completely renovated. Chapman University is the largest private university in Orange County. It is organized into seven schools and colleges, including: Chapman University School of Law, the George L. Argyros School of Business and Economics, the Lawrence and Kristina Dodge College of Film and Media Arts, the Chapman University College of Educational Studies, the Chapman University College of Performing Arts, Wilkinson College of Humanities and Social Services, and Schmid College of Science. In addition, Chapman offers adult education courses through Brandman University, a nonprofit corporation controlled by Chapman. Brandman University is an independently accredited and incorporated university that is part of the Chapman University System, providing courses in 26 Academic Centers located in California and Washington.

#### **Administration:**

Chapman is governed by a Board of Trustees, composed of 45 elected members, one-third of whom are elected annually for three-year terms, and 22 ex-officio members. The ex-officio members are the President of the University, the Trustees Emeriti, the president and immediate past president of the Alumni Board, the president of Town and Gown (a separate non-profit organization that supports Chapman works to maintain excellent City/University relations), the Chairman of the Board of Governors, the Senior Minister of the Orange First Christian Church and the Regional Ministers of each of three western Regions of the Christian Church. The Board normally meets five times each year. The Board of Trustees annually elects a chairman, an executive vice chairman, and two vice chairmen for terms of one year. In addition to an Executive Committee which acts for the Board between meetings, the Board has thirteen standing committees.

#### **Accreditations and Affiliations:**

Chapman is accredited by and is a member of the Western Association of Schools and Colleges, Accrediting Commission for Senior Colleges and Universities, the primary accrediting body for institutions of higher education in the western United States. Other accreditations include: California Commission on Teacher Credentialing of the California State Department of Education, Commission on Accreditation in Physical Therapy Education, National Association of School Psychologists, Commission on Accreditation of Athletic Training Education, Association to Advance Collegiate Schools of Business, American Bar Association, Association of American Law Schools, National Association of Schools of Music, Commission on Accreditation for Marriage and Family Therapy. Chapman is also a member of the Independent Colleges of Southern California, the College Entrance Examination Board, the Western College Association, the Association of Independent California Colleges and Universities, the American Council on Education, the American Association of Colleges for Teacher Education, and the Division of

Higher Education of the Christian Church (Disciples of Christ). The National Association of Schools of Dance (NASD) has accredited Chapman's Department of Dance in the college of Performing Arts.

**Academic Programs:**

Chapman offers a broad spectrum of undergraduate, graduate, credential, and certificate programs, as well as continuing education programs. In the 2009/10 academic year, Chapman awarded degrees to a total of 1,670 students, of whom 1,022 received undergraduate degrees and 648 received graduate degrees (including law degrees).

**IV. OUTSTANDING DEBT:**

<u>Issue:</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding as of 05/31/10 *</u>	<u>Estimated Amount Outstanding After Proposed Financing ***</u>
<b>Existing Debt:</b>			
CEFA Series 2000	\$ 18,000,000	\$ 14,700,000	\$ -
CEFA Series 2008 A	53,515,000	51,270,000	50,100,000
CEFA Series 2008 B	21,665,000	19,995,000	19,100,000
CEFA Series 2008 C	13,705,000	12,620,000	12,075,000
Notes payable, various		1,621,000	1,186,000
Notes payable**			7,761,000
<b>Proposed:</b>			
Chapman University, Series 2011			<b>\$ 100,000,000</b>
Total		<u>\$ 100,206,000</u>	<u>\$ 190,222,000</u>

\* Includes current portion

\*\* Mortgage acquired with gift of revenue-producing, non-campus property and will be converted to a non-recourse commercial loan in FY 2011/12.

\*\*\* Includes debt as of May 31, 2011 and proposed debt

**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

**VI. STAFF RECOMMENDATION:**

Staff recommends the Authority approve Resolution No. 284 in an amount not to exceed \$100,000,000 for Chapman University 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 Fieldman, Rolapp & Associates Inc., the Authority's financial advisor, concur with the Authority's staff recommendations.