

STAFF SUMMARY AND RECOMMENDATION

Pacific Graduate School of Psychology, Series 1997 Amendment to First Supplemental Loan Agreement

July 27, 2000

RESOLUTION NO. 2000-03

Issue: Pacific Graduate School of Psychology ("PGSP") is requesting the Authority approve an amendment to its Series 1997 First Supplemental Loan Agreement (the "1997 Loan Agreement") for purposes of expanding its Line of Credit with Bank of the West ("BW") from \$750,000 to \$1,500,000. The proposed amendment would modify the limitation on encumbrances as defined in Section 17(e) of the 1997 Loan Agreement and permit BW to record a Subordinate Lien on PGSP's facilities. The proposed amendment is highlighted at Exhibit A, page A-3 of the attached resolution.

Background: In June 1997, the Authority issued its revenue bonds in the amount of \$1,570,000 (the "1997 Bonds") for the benefit of PGSP. Proceeds of the 1997 Bonds were used by PGSP to purchase and renovate a building it had leased since 1994 on its main campus in Palo Alto. This 8,600 square foot building contains thirteen administrative offices, two faculty offices, two conference rooms, a research laboratory, a student lounge and a parking lot. Currently, \$1,515,000 remains outstanding on the 1997 Bonds.

In addition, the Authority also issued revenue bonds to benefit PGSP in 1996 (the "1996 Bonds") in the amount of \$2,415,000. Proceeds of the 1996 Bonds were used by PGSP to finance the costs of acquiring land and a 14,000 square foot building to be used for classrooms, faculty and administration offices on its main campus in Palo Alto. Currently, \$2,315,000 remains outstanding on the 1996 Bonds.

Both the 1996 Bonds and the 1997 Bonds are secured by a First Lien Deed of Trust on the financed properties and PGSP's pledge of revenues.

Discussion: PGSP intends to expand its Line of Credit from \$750,000 to \$1,500,000 to even out its cash flow by financing various expenditures throughout the year. Two appraisals each dated April 7, 2000, estimate the property financed by the 1996 Bonds and the 1997 Bonds to be valued at \$9,100,000 and \$5,400,000 respectively, or a total of \$14,500,000. The loan to value ratio is currently a very strong 31%. With this request, the loan to value ratio would be approximately 37%. All other terms and conditions of the 1997 Loan Agreement and the existing First Lien Deed of Trust on each property and the revenue pledge in favor of the Authority would remain unaffected permitting BW to record a Subordinated Lien.

Recommendation: Staff recommends approval of the Amendment to the First Supplemental Loan Agreement dated June 1, 1997 modifying Section 17(e) permitting additional encumbrances by Pacific Graduate School of Psychology. Any recording of a Subordinate Lien in favor of Bank of the West would be secondary to the First Lien Deed of Trust in favor of the Authority.