

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

EXECUTIVE SUMMARY

Applicant: Southwestern University ("University") Los Angeles, California Los Angeles County	Bond Par Amount: \$14,500,000 Loan Term: 23 Years Date Requested: Aug. 27, 2001 Resolution Number: 192
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Facility Type: Private College

Accreditation: Southwestern is fully accredited by the American Bar Association and by the Committee of Bar Examiners of the State Bar of California.

Use of Bond Proceeds: Bond proceeds will be used to refund the CEFA Series 1994 bonds, resulting in a net present value savings of approximately \$380,000 or 3.07% of the refunded issue. The 1994 bonds were issued to acquire and renovate the Bullocks Wilshire Building.

Type of Issue: Negotiated Public Offering, Fixed interest rate

Credit Enhancement: None

Rating: A3 (Moody's)

Senior Underwriter: Prager, McCarthy & Sealy

Bond Counsel: Hawkins, Delafield & Wood

Financial Overview: Southwestern University has a strong balance sheet, with good liquidity, substantial financial resources and minimal debt. University enrollment has been declining steadily over the past 5 years which has resulted in poorer operating results. The University reported a loss of \$375,000 in the fiscal year ended June 30, 2000. Fiscal year 2001 result are not yet final but management anticipates an increase in revenues of approximately \$700,000.

Sources of Revenue (\$000) - FYE 6/30/00:

(Unrestricted Funds)	<u>Amount</u>	<u>Percent</u>
Tuition and fees	\$17,024	83%
Investment earnings	1,365	7%
Other	1,093	5%
Net assets released from restrictions	900	4%
Private gifts and bequests	<u>146</u>	<u>1%</u>
Total unrestricted revenue	<u>\$20,528</u>	<u>100%</u>

Sources of Funds:

Par amount of CEFA bonds	\$14,500,000
Existing debt service reserve	<u>1,049,395</u>
Total Sources	<u>\$15,549,395</u>

Uses of Funds:

Refinance	\$ 14,192,151
Financing Costs	<u>1,357,244</u>
Total Uses	<u>\$15,549,395</u>

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends the Authority approve a resolution for an amount not to exceed \$14,500,000 for Southwestern University, subject to a rating of at least "A3" by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section, a net present value savings of a minimum 3.0% and meeting the standard bond issuance provisions for A3 rated debt.

STAFF SUMMARY AND RECOMMENDATION
Southwestern University

August 27, 2001
Resolution Number: 192

I. PURPOSE OF FINANCING.

The purpose of financing is to refund Southwestern University Series 1994 CEFA obligations to take advantage of lower interest rates. The proposed financing is expected to generate overall net present value savings of at least \$380,462.

Use of Funds:

- **Refinance Bonds**..... **\$14,192,151**

The CEFA Series 2001 bonds will not include any new project financing and is solely being issued to advance refund the Southwestern University Series 1994 CEFA obligations. The 1994 bonds were issued in the amount of \$13,500,000 with \$12,395,000 remaining outstanding as of June 30, 2001. The 1994 bonds were issued to acquire and renovate the Bullock Wilshire Building.

- **Financing Costs**..... **1,357,244**
 - Debt Service Reserve\$1,009,653
 - Cost of Issuance..... 150,000
 - Underwriters Discount..... 196,693
 - Contingency..... 898

- Total Uses of Funds** **\$15,549,395**

Financing Structure:

- General Obligation Pledge
- Negotiated Public Offering
- Fixed Interest Rate
- 23 year term
- A3 Moody's rating
- Financial covenants acceptable to the Authority which may include liquidity, debt service coverage and enrollment.
- Must have a minimum net present value savings of 3.0%

II. FINANCIAL STATEMENTS AND ANALYSIS

Southwestern University
Statement of Activity
(Unrestricted)

	Year Ending June 30, 2000		
	2000	1999	1998
Revenues:			
Tuition and fees	\$ 17,023,631	\$ 17,380,039	\$ 18,819,885
Private gifts, grants & contracts	145,968	126,415	141,284
Federal Work Study Program grants	441,659	638,409	501,167
Off-campus agencies under Federal Work Study	32,470	71,830	52,110
Investment income	1,364,751	1,151,989	1,366,236
Interest earned on loans	69,392	59,049	42,432
Sales and services of educ. dept	394,224	425,021	398,589
Other sources	155,881	520,282	227,575
Total revenues	19,627,976	20,373,034	21,549,278
Net assets released from restrictions	899,694	463,329	551,374
Total revenues and release of net assets	20,527,670	20,836,363	22,100,652
Expenses:			
Instructional	6,891,195	6,599,730	6,689,552
Academic support	5,985,359	5,315,685	5,150,724
Student services and institutional support	5,021,487	5,525,779	5,207,630
Scholarships	1,762,915	1,387,430	1,156,812
Total educational and general expenses	19,660,956	18,828,624	18,204,718
Current interest payments on bonds outstanding	829,580	840,640	850,870
University matching funds	72,136	98,459	112,685
Other expenses	340,087	415,308	211,560
Total Expenses	20,902,759	20,183,031	19,379,833
Change in unrestricted net assets	(375,089)	707,201	2,822,466
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	40,181,346	39,528,014	40,167,753
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 39,806,257	\$ 40,181,346	\$ 39,528,014

Southwestern University
Statement of Financial Position

	As of June 30		
	2000	1999	1998
ASSETS:			
Cash	\$ 14,060,154	\$ 16,012,767	\$ 17,468,525
Investments	5,665,230	6,094,401	6,253,950
Receivables (net)	734,739	1,091,181	880,303
Pledges Receivables (net)	132,471	117,628	240,151
Prepaid Expenses/other assets	641,460	633,212	629,449
Student Loans (net)	8,440,503	8,212,122	7,963,457
Bond Reserve Fund	1,132,774	1,080,035	1,112,029
Property and Equipment (net)	34,719,421	31,999,864	29,886,941
Real Estate Investments (net)	1,741,374	1,456,100	1,245,308
TOTAL ASSETS	\$ 67,268,126	\$ 66,697,310	\$ 65,680,113
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable, accrued expenses, other liabilities	\$ 2,657,037	\$ 2,348,236	\$ 2,546,841
Unearned tuition and fees	1,028,124	1,014,463	696,357
Advances for student loans	7,113,731	6,812,191	6,421,696
Bonds payable	12,615,000	12,825,000	13,025,000
TOTAL LIABILITIES	23,413,892	22,999,890	22,689,894
Net Assets:			
Unrestricted	39,806,257	40,181,346	39,528,014
Temporarily Restricted	1,003,287	958,644	1,127,686
Permanently Restricted	3,044,690	2,557,430	2,334,519
TOTAL NET ASSETS	43,854,234	43,697,420	42,990,219
TOTAL LIABILITIES AND NET ASSETS	\$ 67,268,126	\$ 66,697,310	\$ 65,680,113

Financial Ratios:

	Proforma (a)			
	YE June 30, 2000	2000	1999	1998
Debt service coverage (x)	2.55	2.34	3.21	5.05
Debt to expendable net assets (x)	0.35	0.32	0.32	0.33
Expendable net assets to operations	1.91	2.13	2.04	2.04
Operating margin (%)	-1.8%	7.6%	7.6%	12.3%

(a) Recalculates 2000 audited results to include the impact of this proposed financing.

Financial Discussion:

Southwestern University has a strong balance sheet with good liquidity, substantial financial resources and minimal debt.

Southwestern has good liquidity with close to \$20 million in cash and investments. Their total assets have risen consistently over the last three years. The University's total debt is minimal at \$12.6 million compared to expendable net assets of \$40 million for a ratio of 0.32.

Debt service coverage will remain adequate with the inclusion of this new debt at 2.55x. In addition, the proposed debt will lower University's interest expense and increase the institution's cash flow. The present value savings will be approximately \$380,000.

University enrollment has been declining steadily over the past 5 years, which has resulted in poorer operating results.

Nationally, law school enrollment has been in a declining trend, however the University is taking steps to reverse this trend by adding additional programs such as Entertainment and Media law. Management projects an increase in enrollment through 2004, when it expects to reach its enrollment target of 900 compared to current levels of 837. The addition of new programs will help increase the enrollment while still maintaining a high level of quality combined with the continuing 5% tuition increase the University should be able to increase future revenues.

The University reported a loss of \$375,000 in fiscal year ended June 30, 2000.

Management has stated that during fiscal year 2000 it had a variety of unusual expenses. The University acquired a multi-family housing unit contiguous to the campus.

During the same fiscal year the University completely replace the computer system in the law library allowing for more online access to the student body. Also in fiscal year 2000 the University continued the renovation of the Bullocks Wilshire building.

Fiscal year 2001 result are not yet final but management anticipates an increase in revenues of approximately \$700,000.

This turn around is due in part to the absence of any real estate purchases or the replacement of any major equipment and/or IT systems. The University also came to the end of the major capital investment period involving the Bullocks Wilshire building. The University has completely finished the renovation and the building is open for full use. Another positive note is that for the 2002 fiscal year management states the University is already ahead of its revenue projections.

III. STUDENTS, COLLEGE COSTS, AND FACULTY STATISTICS.

Applications and New Enrollments

Applicant Pool

Academic Year	Applications		Offered Admission		Matriculants	
	Full-time	Part-time	Full-time	Part-time	Full-time	Part-time
1996-97	2,252	436	1,200	213	296	104
1997-98	1,831	362	1,011	160	256	78
1998-99	1,773	367	885	133	255	82
1999-00	1,648	327	922	145	263	90
2000-01	1,662	306	918	160	253	89

Enrollment

Academic Year	Full-time	Part-time	Total	ABA FTE
1996-97	809	359	1,168	1,048
1997-98	706	334	1,040	929
1998-99	624	290	914	817
1999-00	612	267	879	790
2000-01	582	255	837	752

ABA FTE – American Bar Association Full-Time Equivalent

Degrees Awarded

Academic Year	Full-time	Part-time	Total
1996-97	288	64	352
1997-98	244	78	322
1998-99	197	80	277
1999-00	170	71	241
2000-01	170	35	205

Tuition and Fees

Academic Year	Tuition per Credit Hour	SCALE (per period)
1996-97	\$634	\$8,285
1997-98	\$665	\$8,700
1998-99	\$698	\$9,150
1999-00	\$733	\$9,630
2000-01	\$777	\$10,210

Faculty:

<u>Academic Year</u>	<u>Full Time</u>	<u>Part Time</u>	<u>Total</u>
1996-97	49	40	89
1997-98	48	45	93
1998-99	47	33	80
1999-00	46	37	83
2000-01	47	34	81

36 members of the full-time faculty are tenured.

IV. BACKGROUND

General:

Founded in 1911 as an independent, non-profit, non-sectarian institution, University, which operates under the same name Southwestern University School of Law, is fully accredited by the American Bar Association ("ABA"), is a member of the Association of American Law Schools, and is also accredited by the Committee of the Bar Examiners of the State Bar of California.

The mission of the University is to promote educational programs that meet the changing needs of the legal profession and the highest level of professionalism among its students: The School offers a variety of programs to prepare students with diverse backgrounds to assume positions of responsibility and trust within the profession and the community.

With a total 2000-01 enrollment of 837, consisting of 582 day students and 255 evening students, Southwestern is the eighth-largest of the nineteen ABA-approved law schools in California. For the 2000-01 academic year, Southwestern received 1,662 applications for the full-time program and 306 applications for the part-time program, for approximately 400 total spaces. Currently, the faculty numbers 81 members: 47 full-time and 34 adjunct or part-time. The University's tuition is among the lowest of all private fully-accredited law schools in Southern California, and it is one of only two ABA-approved law schools in Los Angeles offering employed persons an educational opportunity to advance their careers by attending law school in the evening.

The University's 9,500 alumni practice law throughout the United States and abroad. They can be found in all legal settings, from sole practice to multinational law firms and major corporations. Southwestern graduates serve in the United States Congress, on national and state commissions, and on local city councils. They are former mayors, founding partners of major law firms, general council of multinational corporations, and top prosecutors and defense attorneys around the country. Southwestern alumni have maintained a major presence within the judiciary with approximately 200 graduates currently serving on the bench from United States district courts to municipal jurisdictions.

The University is located in Wilshire Center, approximately two miles west of downtown Los Angeles. The University acquired its original building on Westmoreland Ave. in 1973. The original building of six floors and a basement provides approximately 62,370 square feet of usable space. Southwestern completed a four story addition in 1978, which increased the building size by another 24,000 square feet. In 1989, the School opened a 12,300 square foot Student Commons.

Administration:

The University is governed by a Board of Trustees whose purpose is to insure the fulfillment of the School's mission. The Board of Trustees acts as a whole and through its Chair. The corporate by-laws provide for the following officers: a Chair of the Board, a Vice Chair of the Board, or a President, or Chief Executive Officer, or both, a Dean, a secretary, a Chief Financial Officer and

such other officers as shall be established by the Board. Any one person may hold two or more offices except that neither the Secretary nor the Chief Financial Officer may serve concurrently as the President or Chief Executive Officer or Chair of the Board.

There are currently twenty-five trustees, including the President and the past President of the University Alumni Association who is an ex-officio member. The University's trustees are prominent members of the legal and business communities in Los Angeles and serve on the Board as volunteers, without compensation. The Board meets quarterly and is responsible for the overall direction of Southwestern, including the appointment and removal of corporate officers, the determination of the scope of the University's activities, the ratification and determination of policies, the setting of tuition and fees, and the determination of degrees to be granted by Southwestern.

Accreditation and Affiliations:

The University is fully accredited by the American Bar Association and by the Committee of Bar Examiners of the State Bar of California. It is also a member of the Association of American Law Schools.

Competition:

The University considers Loyola, Pepperdine, Whittier, the University of San Diego and California Western to be its primary competitors, in Southern California, based on the following similarities: all are fully approved by the ABA and all are private; all tend to draw applicants from Southern California and the vast majority of graduates accept their first employment following graduation within California; all tend to be primarily regional and have a considerable degree of applicant overlap; and, several have part-time evening programs.

V. OUTSTANDING DEBT

<u>Issue Name:</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/00</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing <i>CEFA Revenue Bonds 1994</i>	\$13,500,000	\$12,395,000(1)	\$ 0
Proposed <i>CEFA Revenue Bonds, 2001</i>			14,500,000
Totals		<u>\$12,395,000</u>	<u>\$14,500,000</u>

(1) Excludes current portion of \$220,000

VI. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution for an amount not to exceed \$14,500,000 for Southwestern University, School of Law, subject to a rating of at least "A3" by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section, a net present value savings of a minimum 3.0% and meeting the standard bond issuance provisions for A3 rated debt.