

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

Applicant:	Western University of Health Sciences Pomona, California Los Angeles County	Bond Par Amount:	\$5,000,000
		Loan Term:	30 years
		Date Requested:	March 28, 2002
		Resolution Number:	199
Facility Type:	Private University		
Accreditation:	Western Association of Schools and Colleges		
Project: Bond proceeds will be used to renovate and join two existing buildings to house the College of Veterinary Medicine.			
Type of Issue:	Public Offering, Fixed interest rate		
Credit Enhancement:	None		
Expected Pool Rating:	Baa2 (Moody's)		
Senior Underwriter:	Prager, McCarthy & Sealy LLC		
Bond Counsel:	Orrick, Herrington & Sutcliffe		
Financial Overview: The University's revenues have steadily increase over our review period. The balance sheet continues to grow and shows good liquidity with a positive trend in net assets.			
Sources of Revenue - FY 6/30/01:			
(Unrestricted Funds)		<u>Amount</u>	<u>Percent</u>
Tuition and fees, net		\$33,619,669	88.45%
Sales and services of educational activities		1,582,594	4.16%
Sales and services of auxiliary enterprises		1,124,033	2.96%
Application fees and other operating revenues		1,098,551	2.89%
Private gifts		<u>585,863</u>	<u>1.54%</u>
Total unrestricted revenue		<u>\$38,010,710</u>	<u>100.00%</u>
Sources of Funds:		Uses of Funds:	
Par amount of CEFA bonds	\$5,000,000	Construction/renovation	\$4,000,000
Original issue discount	(250,000)	Debt reserve fund	361,700
Equity Contribution	107,500	Capitalized Interest	294,500
		Financing costs	<u>201,300</u>
Total Sources	<u>\$4,857,500</u>	Total Uses	<u>\$4,857,500</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 \$5,000,000 for the Western University of Health Sciences, subject to the bonds being rated at least "Baa3" by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section, and meeting the standard bond issuance provisions for Baa rated debt.			

STAFF SUMMARY AND RECOMMENDATION
Western University of Health Sciences
(the “University”)

March 28, 2002
Resolution Number: 199

I. PURPOSE OF FINANCING:

The University proposes to renovate and join two existing buildings to house the College of Veterinary Medicine. These two buildings were renovated in 2000 with bond financing issued through the Authority. The University identified a need for a College of Veterinary Medicine through a task force. The task force determined that there are only 31 accredited colleges of veterinary medicine in the United States, and only one in the State of California, at the University of California, Davis. The University has already received significant public attention with regards to the College of Veterinary Medicine and as of January 2002 had received almost 2000 inquiries about admissions.

Construction/Renovation Projects \$3,900,000

The University plans to renovate and join two existing buildings that were renovated with the 2000 bond financing. Since the 2000 renovation, the University determined that the buildings could be put to better use as the location for the College of Veterinary Medicine. Renovation costs will include compartmentalized cold storage room, high tech anatomy lab, high end work stations with computer dock stations in each room for the students and a new HVAC system.

Reimbursement 100,000

The University is requesting reimbursement of funds that were expended for pre-construction costs, such as structural engineer analysis, architectural services and infrastructure improvements.

Debt Reserve Fund 361,700

Capitalized Interest 294,500

Financing Costs 201,300

Cost of Issuance 130,120

Underwriter Discount 71,180

TOTAL USES OF FUNDS \$4,857,500

Financing Structure:

- Public Offering.
- Fixed Rate.
- 30 year maturity.
- General Obligation and Gross Revenue Pledge.
- Deed of Trust to secure property.
- Debt Service Reserve Fund.
- Financial integrity covenants.
- 2002 Bonds to be issued on a parity with the University's 1995, 1998 and 2000 bonds.

Note:

The Authority is requiring the 2002 bonds to be secured by a parity lien against the gross revenue pledges provided for in the University's 1995, 1998 and 2000 bonds. In addition, an amendment to the 1998 and 2000 bond documents will be necessary to clarify that the gross revenue pledges provided are on a parity lien with the 1995 bonds.

II. FINANCIAL STATEMENTS AND ANALYSIS:

Western University of Health Sciences Statement of Activities (Unrestricted Funds)

	<u>Period Ending June 30,</u>		
	<u>2001</u>	<u>2000</u>	<u>1999</u>
SUPPORT AND REVENUES:			
Tuition and fees, net	\$ 33,619,669	\$ 31,094,812	\$ 27,270,362
Application fees	114,295	125,099	143,310
Private gifts	585,863	794,214	990,296
Sales and services of auxiliary enterprises	1,124,033	1,080,642	958,772
Sales and services of educational activities	1,582,594	1,681,595	1,529,096
Other operating revenues	984,256	358,342	604,669
Total operating revenues	<u>38,010,710</u>	<u>35,134,704</u>	<u>31,496,505</u>
EXPENSES:			
Research	203,945	81,513	152,999
Instruction	16,415,798	13,272,496	11,188,853
Academic support	3,589,050	2,962,913	2,817,972
Student services	1,789,828	2,001,340	1,919,572
Institutional support	9,059,141	8,835,303	8,388,503
Operation and maintenance of plant	2,275,781	2,587,291	2,166,928
Scholarships and fellowships	106,093	174,210	206,627
Auxiliary enterprises	975,355	1,241,082	981,731
Depreciation	1,850,282	1,873,591	1,650,022
Interest on indebtedness	1,357,220	1,169,239	1,300,252
Amortization of bond issuance costs	85,284	81,413	81,413
Development and fundraising	610,868	491,195	645,322
Student loan matching requirement	55,943	73,093	92,231
Total expenses	<u>38,374,588</u>	<u>34,844,679</u>	<u>31,592,425</u>
Excess of revenue over expenses	(363,878)	290,025	(95,920)
Net assets released from restrictions	952,103	1,005,368	841,054
Change in net assets from operations	588,225	1,295,393	745,134
Non-operating activities, net	128,981	177,168	471,554
Increase in unrestricted net assets	717,206	1,472,561	1,216,688
Beginning unrestricted net assets	15,095,491	13,168,568	11,951,880
Ending unrestricted net assets	<u>\$ 15,812,697</u>	<u>\$ 14,641,129</u>	<u>\$ 13,168,568</u>

**Western University of Health Sciences
Statement of Financial Position**

	As of June 30,		
	2001	2000	1999
ASSETS:			
Current Assets:			
Cash and equivalents	\$ 16,013,729	\$ 16,610,239	\$ 14,884,670
Accounts receivable	2,495,882	3,227,879	2,536,943
Notes receivable	1,311,225	1,272,272	864,782
Inventories	752,969	795,554	783,981
Prepaid expenses and other	2,180,426	1,534,643	1,147,010
Total current assets	22,754,231	23,440,587	20,217,386
Pledges receivable	718,085	725,971	694,087
Long-term assets	11,428,059	10,243,393	9,258,145
Long-term investments	5,091,516	4,723,298	5,824,189
Deposits with trustee	4,210,706	8,301,589	5,849,632
Property, plant, and equipment, net	38,538,609	34,461,206	31,768,191
TOTAL ASSETS	\$ 82,741,206	\$ 81,896,044	\$ 73,611,630
LIABILITIES AND NET ASSETS:			
Current Liabilities:			
Accounts payable and accrued liabilities	\$ 2,008,102	\$ 2,091,243	\$ 3,306,322
Lines of credit	6,200,000	3,450,000	3,175,000
Deposits for agency funds	229,996	212,189	202,864
Deferred revenue	5,651,689	7,158,367	5,297,380
Notes payable	52,669	49,006	46,743
CEFA bonds	1,480,292	1,403,240	1,140,323
Capital lease obligations	189,179	124,118	172,738
Liability on annuity and unitrust agreements	676,968	656,030	230,083
Total current liabilities	16,488,895	15,144,193	13,571,453
Long-Term Liabilities:			
Deferred revenue	1,504,404	1,590,239	1,378,179
Notes payable	152,822	207,210	253,187
CEFA bonds	31,345,000	32,320,000	29,065,000
Capital lease obligations	81,265	307,756	276,844
Federal student loan funds	8,178,257	7,838,805	7,466,093
Liability on annuity and unitrust agreements	3,824,382	3,830,759	3,072,374
Total long-term debt	45,086,130	46,094,769	41,511,677
Net Assets:			
Unrestricted	15,812,697	14,641,129	13,168,568
Temporarily restricted	2,983,181	3,762,376	3,267,892
Permanently restricted	2,370,303	2,253,577	2,092,040
Total Net Assets	21,166,181	20,657,082	18,528,500
TOTAL LIABILITES AND NET ASSETS	\$ 82,741,206	\$ 81,896,044	\$ 73,611,630

Financial Ratios:	Proforma (1)			
	FYE 2001	2001	2000	1999
Debt Service Coverage (x)	1.38	1.57	2.04	1.87
Debt/Unrestricted Net Assets(x)	2.42	2.11	2.25	2.33
Margin (%)		1.91	4.67	4.01
Current Ratio (x)		1.38	1.55	1.49

(1) Recalculates June 2001 audited results to include the impact of this financing.

Financial Discussion:

The University's revenues have steadily increased over our review period.

The University's total revenues increased nearly 21% over our review period, primarily due to an increase in student enrollment of approximately 10% and an increase in tuition fees averaging 11% each fiscal year. Tuition fees account for over 88% of the University's total revenues. However, expenses outpaced total revenues largely due to increases in research and instruction. The University added a Center for Drug Development, thereby expanding the Pharmacy Department to coordinate the University's efforts in drug research programs and increased its full-time and part-time faculty to accommodate additional courses offered in its Pharmacy and Nursing programs.

Following the opening of the College of Veterinary Medicine in the Fall of 2003, the University expects a minimum enrollment of 77 new students in the program. In addition, the University anticipates the hiring of new faculty. Management anticipates an additional \$2.2 million in annual tuition revenue with this expansion program and further expects to level out expenses.

The University also hired a new Vice President of University Advancement, who has begun a significant fundraising effort to assist in the financial needs of the Veterinary programs renovation and start up costs.

The balance sheet continues to grow and shows good liquidity with a positive trend in net assets. Debt service coverage will remain satisfactory with the new debt.

The University's balance sheet has increased over 12% from 1999 to 2001. Its cash position has remained steady and is considered strong as evidenced by its current ratio of 1.38x for the most recent fiscal year. Property and plant facilities also show increases as major construction projects were completed primarily funded with proceeds of bonds issued in 1998 and 2000. Net assets continue to increase and show a positive trend largely as a result of the University's expansion programs. However, the University is leveraged with a proforma debt to unrestricted net asset ratio of 2.42x, but should be able to manage the new debt with a projected debt service coverage ratio of 1.38x.

III. STUDENTS, COLLEGE COSTS, AND FACULTY STATISTICS:

Applications and New Enrollments

Doctor of Osteopathic Medicine Program (DO)

Year of Matriculation	Total Applications	Total Acceptances	Selectivity Ratio	Matriculants
1997/98	4,369	271	6.2 %	182
1998/99	3,610	287	8.0 %	181
1999/00	2,793	290	10.4 %	169
2000/01	2,539	381	15.0 %	190
2001/02	2,254	393	17.4 %	189

Physician Assistant Certificate Program (PA)

Year of Matriculation	Total Applications	Total Acceptances	Selectivity Ratio	Matriculants
1997/98	663	117	17.6 %	98
1998/99	754	110	14.6 %	98
1999/00	710	114	16.1 %	98
2000/01	435	122	28.0 %	98
2001/02	420	123	29.3 %	98

Master of Physical Therapy Program

Year of Matriculation	Total Applications	Total Acceptances	Selectivity Ratio	Matriculants
1997/98	354	60	16.9 %	54
1998/99	273	59	21.6 %	54
1999/00	217	61	28.1 %	55
2000/01	125	68	54.4 %	54
2001/02	61	27	44.3 %	27

Doctor of Pharmacy Degree Program

(Program started in 1996/1997)

Year of Matriculation	Total Applications	Total Acceptances	Selectivity Ratio	Matriculants
1997/98	395	133	33.7 %	98
1998/99	466	167	35.8 %	99
1999/00	420	160	38.1 %	110
2000/01	390	163	41.8 %	100
2001/02	469	181	38.6 %	102

Master of Science in Nursing Program/Family Nurse Practitioner

(Program started in 1996/1997)

Year of Matriculation	Total Applications	Total Acceptances	Selectivity Ratio	Matriculants
1997/98	28	24	85.7 %	19
1998/99	15	12	80.0 %	11
1999/00	32	19	59.4 %	19
2000/01	70	58	82.9 %	36
2001/02	72	27	37.5 %	21

Enrollment and Degrees

Student Enrollment

Year	College of Osteopathic Medicine	College of Allied Health Professions	College of Pharmacy	College of Graduate Nursing	Total
1997/98	687	371	166	30	1,254
1998/99	688	418	270	35	1,411
1999/00	695	391	377	28	1,491
2000/01	699	398	399	49	1,545
2001/02	702	372	399	42	1,515

Degrees Granted

Year	College of Osteopathic Medicine	College of Allied Health Professions	College of Pharmacy	College of Graduate Nursing	Total
1996/97	175	117	0	0	292
1997/98	168	134	0	0	302
1998/99	162	161	4	24	351
1999/00	165	151	67	11	394
2000/01	172	161	101	24	458

Tuition and Fees

Year	DO Program	PA Program	MPT Program	Pharmacy Program	MSN/FNP Program	MSHPE Program
1997/98	\$22,905	\$12,875	\$21,640	\$21,005	\$16,695	\$2,075
1998/99	24,045	12,875	22,715	22,045	17,525	3,400
1999/00	25,195	13,485	23,795	23,095	10,960	3,400
2000/01	26,375	17,875	24,905	24,175	10,045	4,550
2001/02	28,010	19,095	26,375	25,635	11,725	4,075

Faculty

The following table reflects the number of full-time and part-time faculty appointments for the five academic years shown, as well as, the number of full-time faculty with tenure. The data is for instructional faculty only and excludes certain part-time instructors, guest lecturers, deans, associate deans, and administrators who may hold faculty rank.

Faculty Positions

Academic Year	Full Time	Part Time	Tenured
1997/98	49	18	20
1998/99	50	24	20
1999/00	52	25	21
2000/01*	70	30	21
2001/02	76	36	22

*The notable increase in faculty for academic year 2000-01 corresponds to the need for additional faculty as a result of additional course offerings in the Pharmacy program and increased enrollment in the nursing program.

IV. BACKGROUND:

Western University of Health Sciences:

Western University of Health Sciences (the “University”) is a non-profit, accredited, independent institution of higher learning and an academic health center, whose main campus is located on 20 acres in Pomona, California. Founded in 1977 as the College of Osteopathic Medicine of the Pacific, a four-year medical school educating osteopathic physicians, the institution has expanded its mission by offering primary care-focused educational programs in the allied health professions, pharmacy and advanced nursing. In 1996, the institution officially became a university and changed its name to Western University of Health Sciences.

During fall semester 2001, approximately 1,500 students were enrolled in Western University’s four colleges: the College of Osteopathic Medicine of the Pacific, offering the Doctor of Osteopathic Medicine (DO) degree; the College of Allied Health Professions, offering the Master of Science in Health Professions Education (MSHPE), the Master of Physical Therapy (MPT), and the Master of Science in Physician Assistant Studies (MSPAS) degrees; the College of Graduate Nursing, offering the Master of Science in Nursing/Family Nurse Practitioner (MSN/FNP) degree; and the College of Pharmacy, offering the Doctor of Pharmacy (PharmD) degree. A fifth College, the College of Veterinary Medicine, is currently under active development and will begin accepting applications in the Fall 2002 for the first entering class in August 2003.

Administration:

Western University is governed by a self-perpetuating Board of Trustees (the “Board”) comprised of not less than three nor more than eleven voting members (including the President of the University, who is a member of the Board by office) and two nonvoting Trustee Emeriti. At present, there are eleven voting Trustees (including the President) and no vacancies on the Board. The Board generally meets on a quarterly basis. Voting Trustees (other than the President) serve staggered two-year terms. Trustee Emeriti serve in perpetuity. There are two standing Committees of the Board: the Executive Committee and the Executive Compensation Committee.

The President of Western University is appointed by the Board of Trustees and is charged with the principal responsibility for administration of Western University. The other principal officers of Western University are appointed by the President. In addition, the President has appointed to the President’s Cabinet each of the Executive Vice Presidents, each of the Vice Presidents, the Dean of Student Affairs, the Treasurer, the Director of Human Resources and the Chairperson of the Faculty Senate. The President’s Cabinet meets on a monthly basis to advise the President on policy and governance matters for Western University.

Accreditation and Affiliations:

Western University is accredited by the Accrediting Commission for Senior Colleges and University of the Western Association of Schools and Colleges (“WASC”) through 2009. Western University’s next WASC accreditation visit is scheduled for 2008. In addition, certain Western University’s educational programs have received specialized accreditation from other appropriate professional agencies. Pursuant to its various program accreditations, Western University has limitation on maximum entering class sizes for new enrollments in its various programs.

Competition:

The University’s principal competitors are the Arizona College of Osteopathic Medicine, located in Phoenix, Arizona, and the Touro University College of Osteopathic Medicine, located in Oakland, California.

V. OUTSTANDING DEBT:

	<u>Amount</u>	<u>Outstanding As of 6/30/01</u>	<u>Outstanding after Proposed financing</u>
Existing			
CEFA Revenue Bonds, Series 1995	\$24,840,000	\$21,345,000	\$ 21,345,000
CEFA Revenue Bonds, Series 1998	7,000,000	6,845,000	6,845,000
CEFA Revenue Bonds, Series 2000	4,180,000	4,130,000	4,130,000
Proposed			
CEFA Revenue Bonds, Series 2002			5,000,000
Total CEFA Debt		<u>\$ 32,320,000 *</u>	<u>\$ 37,320,000</u>

*Includes current portion

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 \$5,000,000 for the Western University of Health Sciences, subject to the bonds being rated at least “Baa3” by a nationally recognized rating agency, certain bond covenants as described in the “Financing Structure” section, and meeting the standard bond issuance provisions for Baa rated debt.