

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
EXECUTIVE SUMMARY

Applicant:	Point Loma Nazarene University 3900 Lomaland Drive San Diego, California San Diego County	Amount Requested:	\$7,500,000
		Loan Term:	30 Years
		Date Requested:	August 29, 2002
		Resolution Number:	203
Facility Type:	Private University		
Project Location:	San Diego, CA (Point Loma campus)		
Accreditations:	Western Association of Schools and Colleges		

Use of Bond Proceeds: Bond proceeds will be used to construct a new student housing addition, an administration building and related parking for each structure.

Type of Issue:	Negotiated Public Offering
Credit Enhancement:	Irrevocable direct pay letter of credit
Expected Rating:	Aa3 or VMIG1 (Moody's) with Allied Irish Bank LOC (Applicant has received an underlying Baa3 rating by Moody's)
Underwriter:	Banc of America Securities
Bond Counsel:	Stradling, Yocca, Carlson & Rauth

Financial Status: The University has posted profitability over the past three fiscal years. The University's balance sheet remains strong with good liquidity, significant financial resources and good debt service coverage.

Sources of Revenue – FY 6/30/01:

	<u>Amount</u>	<u>Percent</u>
Tuition & Fees	\$27,806,954	59.1%
Auxiliary enterprises	11,674,525	24.8%
Gifts and grants	3,082,758	6.6%
Other	2,629,712	5.6%
Investment income/gains	<u>1,850,956</u>	<u>3.9%</u>
Total Revenue	<u>\$47,044,905</u>	<u>100%</u>

<u>Sources of funds:</u>		<u>Uses of funds:</u>	
Par amount of bonds	\$7,500,000	Construction	\$7,275,000
Borrower funds	<u>45,625</u>	Financing Costs	<u>270,625</u>
Total Sources	<u>\$7,545,625</u>	Total Uses	<u>\$7,545,625</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 in an amount not to exceed \$7,500,000 for Point Loma Nazarene University, subject to a letter of credit with a minimum "A" rating (or equivalent short-term rating), and the security and reporting requirements of the CEFA issuance guidelines for "A" or higher rated bond issues.

STAFF SUMMARY AND RECOMMENDATION

Point Loma Nazarene University

August 29, 2002

Resolution Number: 203

I. PURPOSE OF FINANCING:

The University is proposing two projects. The first is to construct a residence hall of approximately 93 beds. The University requires that students live on campus, with few exceptions. Currently, the University has about 100 students that it is unable to house on campus and the building of a new residence hall will help eliminate the housing shortage. The University is also proposing to construct a new administration building that will consolidate four departments that are currently located throughout the campus. Each project includes additional parking to accommodate the occupancy of each building.

Construction\$7,275,000

Student Housing and Parking Structure \$3,300,000

The University proposes to construct a residence hall addition that will add approximately 93 beds. The University’s enrollment is at full capacity and the need for student housing is at a premium. Along with the additional housing, the University is also proposing to add a second level to the existing parking lot. This will expand the parking structure an additional 60 to 75 parking spaces.

Administration Building and Parking Lot..... 3,975,000

The University also proposes to construct a new administration building of approximately 18,000 square feet. The new administration building will combine the Business Office, Student Accounts, Financial Aid and Enrollment Services. Currently, these departments are located throughout the campus. The space they now occupy will be used for other staff and faculty. To accommodate the addition of the new building, the University will add a parking lot with approximately 60 spaces.

Financing Costs270,625

Bank Fees 85,000

Bond & Disclosure Counsel 45,000

Underwriter’s Discount.....75,000

Other Costs65,625

TOTAL USES OF FUNDS \$7,545,625

Financing Structure:

- Negotiated Public Offering
- Variable rate with a weekly reset
- Credit Enhancement - 5 year renewable Letter of Credit through Allied Irish Bank
- General Obligation Pledge
- Deed of Trust as required by the Letter of Credit Bank

II. FINANCIAL ANALYSIS:

Point Loma Nazarene University and Affiliate Statement of Activities (Unrestricted)

	Fiscal Year Ended June 30,		
	2001	2000	1999
REVENUES			
Tuition & Fees	\$ 35,775,060	\$ 34,943,233	\$ 32,025,492
Less Student Aid	(7,968,106)	(7,934,723)	(7,351,339)
Net Tuition & Fees	27,806,954	27,008,510	24,674,153
Private gifts and grants	3,082,758	3,283,955	4,713,227
Income on long-term investments	1,668,907	984,977	926,191
Realized gains on investments, net	182,049	2,478,799	2,312,891
Other income	2,629,712	2,233,537	2,205,166
Auxiliary services	11,674,525	11,127,992	9,994,548
Total Revenues	47,044,905	47,117,770	44,826,176
Net assets released from restrictions	537,516	576,187	696,178
Total revenues, gains, and other support	47,582,421	47,693,957	45,522,354
EXPENDITURES			
Instruction	12,093,413	11,208,395	10,397,852
Academic Support	6,365,120	5,620,667	5,469,938
Student Development	5,114,081	5,170,632	4,755,377
Institutional Support	10,372,534	8,820,790	8,430,815
Operating & Maintenance of Plant	5,348,884	4,384,626	3,653,726
Auxiliary Services	7,510,833	7,400,281	7,100,451
Extraordinary charge - deferred bond issuance costs	-	-	541,873
Other	910,872	991,660	918,057
Organized research	97,580	149,679	272,366
Total Expenditures	47,813,317	43,746,730	41,540,455
Excess (shortfall) of revenues over expenses	(230,896)	3,947,227	3,981,899
Net unrealized gain (loss) on investments	325,667	(996,687)	(371,641)
Increase in Unrestricted Net Assets	94,771	2,950,540	3,610,258
Unrestricted net assets, beginning of year	58,987,470	56,006,930	52,396,672
Unrestricted net assets, end of year	\$ 59,082,241	\$ 58,957,470	\$ 56,006,930

Point Loma Nazarene University and Affiliate
Statement of Financial Position

	As of June 30,		
	2001	2000	1999
Assets			
Cash and cash equivalents	\$3,340,322	\$ 1,345,173	\$ 1,245,313
Marketable securities	26,769,112	26,675,366	23,041,145
Student accounts receivable	1,210,111	1,873,840	1,602,268
Student notes receivable	3,501,027	2,895,609	3,128,241
Equity participation notes receivable	3,295,632	3,447,427	2,875,132
Trust deed notes receivable	1,865,548	1,984,696	2,037,530
Inventories and other assets	1,215,937	1,160,941	1,119,642
Investments in real estate, net of valuation allowance	7,188,734	7,897,944	5,673,508
Property, plant and equipment, net of depreciation	60,690,485	61,640,263	51,477,658
Construction in progress	2,803,454	686,948	10,134,046
Bond issuance costs, net of amortization	1,174,270	1,232,570	1,104,611
Total Assets	\$113,054,632	\$ 110,840,777	\$ 103,439,094
Liabilities			
Accounts Payable	\$2,234,619	\$ 1,604,356	\$ 2,759,218
Accrued Expenses & Other Liabilities	1,957,875	1,812,487	1,880,787
Deposits & Deferred Revenues	1,410,085	1,754,937	1,709,036
Annuities Payable	2,099,087	2,170,493	1,976,742
Long-term Debt	29,940,694	30,699,631	26,938,528
Federal Student Loan Obligations	2,485,437	2,810,872	2,276,221
Total Liabilities	40,127,797	40,852,776	37,540,532
Net Assets			
Unrestricted	59,082,241	58,987,470	56,006,930
Temporarily Restricted	3,493,910	2,373,391	2,150,530
Permanently Restricted	10,350,684	8,627,140	7,741,102
Total Net Assets	72,926,835	69,988,001	65,898,562
TOTAL LIABILITIES AND NET ASSETS	\$ 113,054,632	\$ 110,840,777	\$ 103,439,094

Financial Ratios:

	Proforma (a) FYE June 30, 2001			
Debt service coverage (x)	2.02	2.30	3.51	4.64
Debt/Unrestricted net assets (x)	0.65	0.52	0.54	0.49
Margin (%)		0.20	6.38	8.00
Current Ratio (x)		2.82	2.71	2.76

(a) Recalculates 2001 audited results to include the payment of this proposed financing.

Financial Discussion:

The University has posted profitability over the past three fiscal years.

The University has posted three consecutive years of increases in unrestricted net assets. However, the increase for 2001 has been significantly less than in 2000 and 1999. This is mostly attributable to the large decline in “realized gains on investments” experienced in fiscal year 2001, which has been common in the industry. The University’s realized gains on investments have decreased 92% from 1999 to 2001, a decline of over \$2 million. Fortunately, the University has been able to maintain a diversified mix of revenue sources that support its operations, which include tuition/fees, private gifts/grants, and auxiliary services.

The University continues to increase tuition and fees at a steady rate and the demand for services has remained very strong. Enrollment has increased by approximately 4% per year over the past five fiscal years. Due to the Point Loma campus reaching its maximum capacity for undergraduate students, future enrollment growth will occur from the University’s other locations in Mission Valley, Arcadia, and Bakersfield. The University also continues to expand enrollment in its graduate programs.

The University intends to use a portion of the bond proceeds to build much needed student housing and projects net revenues available for debt service to increase approximately \$336,000 annually.

Expenditures have increased due to salary increases, related employee benefits and a slightly greater number of faculty and administrative staff. There was also a large increase in utility costs during 2001 which was also experienced by similar types of institutions in San Diego County.

University management expects that revenues will improve in FYE 2002. This can be attributed to an increase in tuition of 4% to 5% and also the growing enrollment in the University’s graduate programs. Management also expects expenditures for FYE 2002 to be consistent with FYE 2001 and anticipates these expenditures to remain consistent over the next couple of years due to the University signing a three year contract for energy and being at or above full capacity for faculty and staff.

The University’s balance sheet remains strong with good liquidity, significant financial resources and good debt service coverage.

The University’s cash and cash equivalents have increased significantly over the review period from \$1.2 million in 1999 to over \$3.3 million in 2001. This increase was due to the University receiving cash from a gift annuity of \$1.3 million. The University also received payoff of loans from the housing assistance program for faculty. The University’s investment portfolio has also continued to increase with over \$26.7 million in marketable securities, which consist of \$2.2 million in short-term investments, \$18.2 million in equity securities and \$6.3 million in fixed securities and bonds. It maintains significant financial resources, with over \$59 million in unrestricted net assets. The University is moderately leveraged with \$30 million in long-term debt compared to \$59 million in unrestricted net assets. The proforma debt service coverage is more than adequate at 2.02x, which indicates that the University could comfortably manage the proposed debt repayments.

III. STUDENT, COLLEGE COSTS, AND FACULTY STATISTICS:

Application Pool

The following table illustrates application, admissions and new enrollments for the University's undergraduate programs for the fall semesters.

Freshman and Transfer (combined)*

Fall Semester	Number of Applications	Offered Admission	Selectivity Ratio	New Enrollments
1997	1,819	1,545	85%	672
1998	2,073	1,736	84%	748
1999	2,324	1,697	73%	804
2000	1,991	1,366	69%	750
2001	1,821	1,320	72%	709
2002	1,854	1,285	69%	Not Available

*Headcount not full-time equivalent

The University has not kept records for the number of applications and offered admissions for the graduate programs.

Enrollments and Degrees

The following table reflects undergraduate and graduate enrollments as well as degrees awarded.

Academic Year	Enrollments			Degrees Awarded		
	Undergraduate FTE	Graduate FTE	Total FTE	Bachelor	Graduate	Total
1996-97	1,850	141	1,991	377	60	437
1997-98	1,856	152	2,008	360	67	427
1998-99	2,121	127	2,248	392	76	468
1999-00	2,187	181*	2,338	494	59	553
2000-01	2,166	213	2,379	447	52	499
2001-02	2,211	263	2,474	Not Available	Not Available	Not Available

*Calculation changed: Beginning with 1999-00 based upon 12 hours per FTE; prior to 1999-00 based upon 16 hours per FTE.

UNDERGRADUATE TUITION, FEES, ROOM AND BOARD

The following table reflects Point Loma's tuition and room and board charges.

Academic Year	Undergraduate Tuition and Fees	Room and Board	Undergraduate Total
1996-97	\$11,824	\$4,730	\$16,554
1997-98	12,464	4,970	17,434
1998-99	12,650	5,220	17,870
1999-00	13,626	5,480	19,106
2000-01	14,340	5,760	20,100
2001-02	15,300	6,080	21,380

FACULTY SUMMARY (Full-time Equivalent)

The following table reflects the number of faculty for the six academic years indicated, as well as the number of full-time faculty with tenure.

Academic Year	Tenured Full Time	Other Full Time	Part Time FTE	Total FTE
1996-97	59	67	15	141
1997-98	38	70	27	135
1998-99	34	75	32	141
1999-00	42	87	15	144
2000-01	33	86	30	149
2001-02	42	82	27	151

IV. BACKGROUND:

General:

Point Loma Nazarene University was founded in Los Angeles in 1902 and first incorporated as Pacific Bible College. In 1910 the University moved to Pasadena and began offering a four-year liberal arts degree. The name Pasadena College was adopted in 1924. In 1973, the College relocated to the Point Loma Peninsula in San Diego and is now known as Point Loma Nazarene University. The University is located on approximately 90 acres. There are 31 buildings with 478,242 square feet, of which 218,061 feet is academic space (classrooms, laboratories and faculty offices).

Administration:

The University is owned and operated by a self-perpetuating board of 41 members of the Church of the Nazarene, the sponsoring denomination. Its Board of Trustee members are selected from the eleven districts of the region located in Arizona, California, Hawaii, New Mexico, and parts of Texas and Nevada. Two of the districts are comprised of other than English-speaking congregations.

Accreditation:

First accredited by the Western Association of Schools and Colleges (WASC) in 1949, the University has been continuously accredited since that date. Accreditation was reaffirmed in 1997 by the WASC.

Academic Programs:

The University offers over 40 different undergraduate majors – the four largest are business administration, teacher education, biochemistry and communication studies. The University offers graduate education, nursing, business and religion programs in San Diego, and teacher preparation and graduate programs in education in Arcadia and Bakersfield.

Competition:

The University competes primarily with the UC system and three private institutions of higher education: Westmont College, Biola University and Azusa Pacific University. For the past three years, the University's Point Loma Campus received over three times as many applications as available freshmen slots.

Religious Certification:

Because the University is affiliated with a religious denomination, it has provided a certification of compliance in accordance with the CEFA Act.

V. OUTSTANDING DEBT:

<u>Issue Name:</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/01</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing			
Point Loma Nazarene College, Series 1998	\$26,800,000	\$25,360,000	\$25,360,000
Point Loma Nazarene University, Series 1999	4,500,000	4,500,000	4,500,000
Notes payable	Various	80,694	80,694
Proposed			
Point Loma Nazarene University, Series 2002			7,500,000
Totals		<u>\$29,940,694</u>	<u>\$37,440,694</u>

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 in an amount not to exceed \$7,500,000 for Point Loma Nazarene University, subject to a letter of credit with a minimum "A" rating (or equivalent short-term rating), the security and reporting requirements of the CEFA issuance guidelines for "A" or higher rated bond issues.