

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

EXECUTIVE SUMMARY

Applicant: Southwestern University (“University”) 675 South Westmoreland Los Angeles, California Los Angeles County	Bond Par Amount: \$13,000,000 Loan Term: 22 Years Date Requested: April 24, 2003 Resolution Number: F209
---	---

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 an overall net present value savings of approximately \$600,000 or 5.09%. 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, Sealy & Co.
Bond Counsel: Hawkins, Delafield & Wood

Financial Overview: Revenues have remained steady over our review period, while expenses have declined 7%. Southwestern University has a strong balance sheet, with good liquidity, substantial financial resources and minimal debt.

Sources of Revenue (\$000) - FYE 6/30/02:

(Unrestricted Funds)	<u>Amount</u>	<u>Percent</u>
Tuition and fees	\$17,984,500	89%
Federal Work Program	747,807	4%
Sales/services of Educational Dept.	395,759	2%
Investment income	313,086	2%
Net assets released from restrictions	285,979	1%
Other	204,595	1%
Private gifts and bequests	<u>170,718</u>	<u>1%</u>
Total unrestricted revenue	<u>\$20,102,444</u>	<u>100%</u>

Sources of Funds:

Par amount of CEFA bonds	\$13,000,000
Original issue discount	(481,330)
Existing debt service reserve	1,049,395
University funds	<u>94,875</u>
Total Sources	<u>\$13,662,940</u>

Uses of Funds:

Refinance	\$ 13,300,000
Financing Costs	<u>362,940</u>
Total Uses	<u>\$13,662,940</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 \$13,000,000 for Southwestern University, subject to a rating of at least “A3” by a nationally recognized rating agency and meeting the standard bond issuance provisions for A3 rated debt.

**STAFF SUMMARY AND RECOMMENDATION
Southwestern University**

April 24, 2003
Resolution Number: F209

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 approximately \$600,000 or 5.09%.

Use of Funds:

- **Refinance Bonds**..... **\$13,300,000**

The proposed CEFA Series 2003 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 \$11,915,000 remaining outstanding as of March 31, 2003. The 1994 bonds were issued to acquire and renovate the Bullocks Wilshire Building.

- **Financing Costs**..... **362,940**

Cost of Issuance	180,000
Underwriters Discount	178,750
Contingency	<u>4,190</u>

- Total Uses of Funds** **\$13,662,940**

Financing Structure:

- General Obligation Pledge
- Negotiated Public Offering
- Fixed Interest Rate
- 22 year term
- A3 Moody's rating

II. FINANCIAL STATEMENTS AND ANALYSIS

Southwestern University

Statement of Activity (Unrestricted)

	Year Ending June 30		
	2002*	2001	2000
Revenues:			
Tuition and fees	* \$ 17,984,500	\$ 17,238,159	\$ 17,023,631
Private gifts, grants & contracts	170,718	133,414	145,968
Federal Work Study Program grants	716,735	585,029	441,659
Off-campus agencies under Federal Work Study	31,072	26,922	32,470
Investment income	313,086	1,371,746	1,364,751
Interest earned on loans	84,033	77,405	69,392
Sales and services of educ. dept	395,759	389,245	394,224
Other sources	120,562	20,370	155,881
Total revenues	19,816,465	19,842,290	19,627,976
Net assets released from restrictions	285,979	320,432	899,694
Total revenues and release of net assets	20,102,444	20,162,722	20,527,670
Expenses:			
Instructional	7,523,015	7,115,344	6,891,195
Academic support	6,423,463	5,965,136	5,985,359
Student services and institutional support	5,410,137	4,915,417	5,021,487
Scholarships	*	1,576,524	1,762,915
Total educational and general expenses	19,356,615	19,572,421	19,660,956
Current interest payments on bonds outstanding	*	817,880	829,580
University matching funds	*	70,508	72,136
Other expenses	*	371,837	340,087
Total Expenses	19,356,615	20,832,646	20,902,759
Change in unrestricted net assets	745,829	(669,924)	(375,089)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	**39,498,711	39,806,257	40,181,346
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 40,244,540	\$ 39,136,333	\$ 39,806,257

*The University changed auditors starting FY 2002. This accounts for the format change.

Tuition and fees are net for the FY 2002 only.

**Certain reclassifications have been made to appropriately reflect donor restrictions resulting in a \$362,378 increase in unrestricted net assets.

Southwestern University
Statement of Financial Position

	2002	As of June 30 2001	2000
ASSETS:			
Cash and cash equivalents	\$ 12,182,967	\$ 11,247,078	\$ 14,060,154
Investments	5,873,918	5,856,290	5,665,230
Receivables (net)	545,367	609,672	734,739
Pledges Receivables (net)	70,308	108,430	132,471
Prepaid Expenses/other assets	487,126	593,836	641,460
Student Loans (net)	9,500,018	8,925,546	8,440,503
Bond Reserve Fund	1,053,292	1,079,961	1,132,774
Property and Equipment (net)	36,656,509	36,560,722	34,719,421
Real Estate Investments (net)	1,699,968	1,724,512	1,741,374
TOTAL ASSETS	\$ 68,069,473	\$ 66,706,047	\$ 67,268,126
 LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable, accrued expenses, other liabilities	\$ 2,775,870	\$ 2,653,050	\$ 2,657,037
Unearned tuition and fees	837,165	695,786	1,028,124
Advances for student loans	7,873,597	7,475,986	7,113,731
Bonds payable	12,160,000	12,395,000	12,615,000
TOTAL LIABILITIES	23,646,632	23,219,822	23,413,892
 Net Assets:			
Unrestricted	40,244,540	39,136,333	39,806,257
Temporarily Restricted	898,879	1,089,977	1,003,287
Permanently Restricted	3,279,422	3,259,915	3,044,690
TOTAL NET ASSETS	44,422,841	43,486,225	43,854,234
 TOTAL LIABILITIES AND NET ASSETS	 \$ 68,069,473	 \$ 66,706,047	 \$ 67,268,126

Financial Ratios:

	Proforma (a)			
	YE June 30, 2002	2002	2001	2000
Debt service coverage (x)	3.59	3.39	2.03	2.34
Debt to expendable net assets (x)	0.35	0.30	0.32	0.32
Margin (%)		3.71	-3.32	-1.83
Current ratio (%)		2.50%	2.53%	2.75%

(a) Recalculates 2002 audited results to include the impact of this proposed financing.

Financial Discussion:

Revenues have remained steady over our review period, while expenses have declined 7%.

Tuition has increased approximately 5% per year over our review period but remains the lowest of the private accredited law schools in Los Angeles. Tuition is expected to continue to increase approximately 5% per year. Enrollment has increased 17% over our review period, which has helped keep revenues steady. Management believes that enrollment will continue to grow as the demand for its services increase and revenue totals continue to increase. As seen with most institutions, the University's investment income declined substantially due to the poor performance in the stock market. The University has maintained a mixed revenue base that has maintained consistent revenues.

The University has been able to decrease expenses by approximately 7% over the review period. Management believes that expenses will only increase slightly due to hiring of additional faculty.

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. It's total assets have increased slightly over the last three years. The University's total debt is minimal at \$12.1 million compared to net assets of \$40 million for a ratio of 0.30.

Debt service coverage will improve with this refunding with a profoma ratio of 3.59x. In addition, the proposed refunding will lower University's interest expense and increase the institution's cash flow. The net present value savings will be approximately \$600,000 or 5.09%.

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
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
2001-02	1,804	339	844	163	282	98
2002-03	2,578	428	1,029	183	316	97

Enrollment

Academic Year	Full-time	Part-time	Total	ABA FTE
1998-99	624	290	914	817
1999-00	612	267	879	790
2000-01	582	255	837	752
2001-02	603	284	887	792
2002-03	679	299	978	878

ABA FTE – American Bar Association Full-Time Equivalent

Degrees Awarded

Academic Year	Full-time	Part-time	Total
1997-98	244	78	322
1998-99	197	80	277
1999-00	170	71	241
2000-01	172	35	207
2001-02	172	39	211

Tuition and Fees

Academic Year	Tuition per Credit Hour	SCALE (per period)
1998-99	\$698	\$9,150
1999-00	\$733	\$9,630
2000-01	\$777	\$10,210
2001-02	\$828	\$11,027
2002-03	\$870	\$11,600

Faculty:

<u>Academic Year</u>	<u>Full Time</u>	<u>Part Time</u>	<u>Total</u>
1998-99	47	33	80
1999-00	46	37	83
2000-01	47	34	81
2001-02	49	38	87
2002-03	49	42	91

37 members of the full-time faculty are tenured.

IV. BACKGROUND

General:

Founded in 1911 as an independent, non-profit, non-sectarian 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 University 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 2002-03 enrollment of 978, consisting of 679 day students and 299 evening students, Southwestern is the eighth-largest of the nineteen ABA-approved law schools in California. For the 2002-03 academic year, Southwestern received 2,578 applications for the full-time program and 428 applications for the part-time program, for approximately 400 total spaces. Currently, the faculty numbers 91 members: 49 full-time and 42 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-nine trustees, including the President of the University Alumni Association who is an ex-officio member, the past President of the University Alumni Association. 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

Issue Name:	Original Amount	Amount Outstanding As of 6/30/02	Estimated Amount Outstanding after Proposed Financing
Existing			
<i>CEFA Revenue Bonds 1994</i>	\$13,500,000	\$12,160,000(a)	\$ 0
Proposed			
<i>CEFA Revenue Bonds, 2003</i>			13,000,000
Totals		<u>\$12,160,000</u>	<u>\$13,000,000</u>

(a) Amount reduced by \$245,000 to \$11,915,000 with principal payment on November 1, 2002.

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 \$13,000,000 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 and meeting the standard bond issuance provisions for A3 rated debt.