

**STAFF SUMMARY AND RECOMMENDATION
PACIFIC GRADUATE SCHOOL OF PSYCHOLOGY
Series 1997**

**Resolution Number 2005-06
June 30, 2005**

ISSUE: Pacific Graduate School of Psychology (“PGSP”) requests approval to amend its First Supplemental Indenture, by and between the Authority and Union Bank of California, N.A., as Trustee, permitting the redemption of the Series 1997 Bonds (the “1997 Bonds”) prior to their respective stated maturity dates. PGSP has obtained bondholder consent to redeem the 1997 Bonds prior to maturity at a premium of 11 percent. This request is a result of PGSP’s desire to sell property that was purchased with proceeds from the issuance of the 1997 Bonds in the amount of \$1.57 million. With the proposed property sale, PGSP anticipates prepaying the 1997 Bonds presently outstanding in the amount of \$1.345 million. PGSP is currently in escrow with the purchaser and anticipates closing in early July 2005.

BACKGROUND: PGSP used proceeds from the 1997 Bonds to acquire leased property located at 940 E. Meadow Drive in Palo Alto, California. This property consists of a two-story, 8,600 square foot building with thirteen administrative offices, two faculty offices, two conference rooms, a research laboratory, a student lounge and a parking lot. Prior to the issuance of the 1997 Bonds, the Authority also issued bonds in 1996 (the “1996 Bonds”) in the amount of \$2.415 million to finance the acquisition of land containing a 14,000 square foot building to be used for classrooms, faculty and administration offices located at 935 E. Meadow Drive in Palo Alto. Presently, \$2.08 million remains outstanding on the 1996 Bonds. With the issuance of the 1996 Bonds and the 1997 Bonds, the Authority secured each financing with a first lien deed of trust.

REASON FOR SALE OF THE PROPERTY: PGSP desires to be in compliance with the Authority and the Department of Education financial ratios for debt covenants on the Authority’s bonds and a \$1.5 million line of credit with Bank of the West. Secondly, PGSP wants to separate the clinic functions from the traffic area of the school where administration, students, and faculty were commingling. Lastly, PGSP desires to reduce its operating overhead so additional revenues could be spent on academics and to upgrade the remaining facilities. The purchase price of the property is \$3.8 million with an anticipated gain of \$2.475 million after all expenses are paid.

PGSP has relocated its clinic operations to 5150 El Camino Real in Mountain View to enhance the clinic’s ability to train PhD students and improve overall services.

FINANCIAL STATUS: PGSP has been operating under “Going Concern” status over our review period that includes FYE 2002, 2003 and 2004. PGSP sustained losses from operations for several years before generating a positive change in unrestricted net assets of \$458,844 for FYE 2003 and \$17,995 for FYE 2004. The total net asset balance remains at a deficit for FYE 2004. PGSP’s management has taken the following steps to revise its operating and financial requirements, which it believes are sufficient to provide the organization with the ability to continue in existence:

- Expanded tuition and fee revenues.
- Implemented expenditure reductions and control expenses.
- Secured its line of credit extension commitment from a bank and obtained waivers of covenant violations from the bondholders.
- Entered into an agreement to sell property financed with the 1997 Bonds.

The 1996 Bonds will continue to be secured with a first lien deed of trust on the property with an estimated value of \$6 million, leading to a loan-to-value ratio of 35%. A summary of the Statement of Activities and Statement of Financial Position for FY's 2002, 2003 and 2004 are shown in Exhibit A.

RECOMMENDATION: Staff recommends the Authority approve the Pacific Graduate School of Psychology's Amendment to the First Supplemental Indenture permitting the redemption of the 1997 Bonds prior to their respective stated maturity dates resulting from the sale of property financed with proceeds of the 1997 Bonds, and subject to an opinion of Bond Counsel, that as a result of selling property acquired with tax-exempt bonds, or redeeming such bonds, such actions will not affect the tax-exempt status of interest on the 1997 Bonds.

EXHIBIT A

Pacific Graduate School of Psychology, Inc.

Statement of Activities
(000's)

	Year Ended September 30		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total Unrestricted Revenues, Gains and Other Support	\$ 6,790	\$ 6,376	\$ 5,379
Total Unrestricted Expenses	<u>6,772</u>	<u>5,917</u>	<u>5,830</u>
Change in Unrestricted Net Assets	18	459	(451)
Unrestricted Net assets (deficit) at beginning of year	<u>(848)</u>	<u>(1,307)</u>	<u>(856)</u>
Unrestricted Net assets (deficit) at end of year	<u>\$ (830)</u>	<u>\$ (848)</u>	<u>\$ (1,307)</u>

Statement of Financial Position
(000's)

	As of September 30		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
Total current assets	\$ 1,333	\$ 1,045	\$ 1,253
Total other assets	<u>4,991</u>	<u>5,853</u>	<u>6,158</u>
Total assets	<u>\$ 6,324</u>	<u>\$ 6,898</u>	<u>\$ 7,411</u>
Total current liabilities	\$ 2,900	\$ 3,388	\$ 4,225
Total long-term liabilities	<u>3,425</u>	<u>3,541</u>	<u>3,675</u>
Total liabilities	6,325	6,929	7,900
Net assets:			
Unrestricted	(830)	(848)	(1,307)
Temporarily restricted	820	817	818
Permanently restricted	<u>9</u>	<u>-</u>	<u>-</u>
Total net assets	(1)	(31)	(489)
Total liabilities and net assets	<u>\$ 6,324</u>	<u>\$ 6,898</u>	<u>\$ 7,411</u>

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