

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY  
BOND FINANCING PROGRAM**

**EXECUTIVE SUMMARY**

<b>Applicant:</b> Charles R. Drew University of Medicine and Science (the "University") 1731 E. 120 <sup>th</sup> Street Los Angeles, CA 90059 Los Angeles County	<b>Amount Requested:</b> \$43,000,000 <b>Date Requested:</b> October 25, 2007 <b>Resolution Number:</b> 250
<b>Facility Type:</b> Private University	
<b>Project Location:</b> 1748 E. 118 <sup>th</sup> Street, Los Angeles, CA 90059	
<b>Accreditation:</b> Western Association of Schools and Colleges	

**Use of Proceeds:** Bond proceeds will be used to finance the construction of a facility that will house both the new School of Nursing and a new scientific research facility for laboratory and clinical research.

<b>Type of Issue:</b> Negotiated public offering, Variable rate
<b>Credit Enhancement:</b> Anticipated Letter of Credit, Sovereign Bank Confirming Letter of Credit, Natixis Bank
<b>Expected Rating:</b> Aa2/MIG1 (Moody's)
<b>Underwriter:</b> Piper Jaffray & Co.
<b>Bond Counsel:</b> Kutak Rock, LLP

**Financial Status:** The University continues to post positive operating results with growth in tuition and solid student demand. The balance sheet is healthy with good liquidity and no prior long-term debt. The University is restructuring to lessen its reliance on a single affiliate teaching hospital for clinical training.

**Sources of Revenue – FYE 6/30/06:**

<b>(Unrestricted Funds)</b>	<u>Amount</u>	<u>Percent</u>
Federal grants & contracts	\$41,132,738	56.0%
State & local government grants & contracts	26,873,782	36.6%
Investment income	2,037,840	2.8%
Tuition & fees, net	1,438,089	2.0%
Private gifts, grants & contracts	978,678	1.3%
Net assets released from restrictions	596,212	0.8%
Sales & services of educational departments	363,828	0.4%
Other	<u>94,209</u>	<u>0.1%</u>
Total unrestricted revenue	<u>\$73,515,376</u>	<u>100%</u>

<b><u>Sources of funds:</u></b>		<b><u>Uses of funds:</u></b>	
Par Amount of Bonds	\$43,000,000	Capital Projects	\$44,000,000
Equity (NIH Funds)	<u>6,500,000</u>	Capitalized Interest	4,854,949
		Financing Costs	<u>645,051</u>
Total Sources	<u>\$49,500,000</u>	Total Uses	<u>\$49,500,000</u>

**Legal Review:** Although disclosures were made by the applicant, the information disclosed does not appear to detrimentally affect the financial viability or legal integrity of the Applicant.

**Staff Recommendation:** Staff recommends the Authority approve a Resolution in an amount not to exceed \$43,000,000 for Charles R. Drew University of Medicine and Science, subject to a bond rating of at least an "A" by a nationally recognized rating agency and meeting the standard bond issuance guidelines for "A" rated debt.

**STAFF SUMMARY AND RECOMMENDATION**

**Charles R. Drew University of Science and Medicine (“The University”)**

October 25, 2007

Resolution Number: 250

**I. PURPOSE OF FINANCING:** The University intends to construct a new facility providing state-of-the-art space for laboratories, clinical research and support functions for the College of Medicine, the College of Science and Health, and the new School of Nursing. The facility will increase the research capacity and output and will raise revenue from research activities and nursing education tuition.

**Projects ..... \$44,000,000**

Life Sciences Research and Nursing Education Building – The construction of the 63,000 square-foot building will house the new School of Nursing and a new scientific research facility for laboratory and clinical research.

Environmental benefits will include, but not be limited to:

- Focus on conserving resources, reduce waste and minimize the environmental impacts of new construction
- Purchase and use of high performance building materials and furnishings to ensure environmental efficiency and indoor air quality
- Maximize energy efficiency by incorporating the following:
  - Maximize use of natural light, thereby minimizing use of electricity
  - Use of Energy Star white roof to reduce energy consumption for climate control
  - Integrate new electronic, state-of-the-art digital HVAC control system
  - Exterior and interior sunshades and use of low “E” glass to reduce cooling costs
- Recycle and/or salvage demolition and construction waste whenever possible to divert waste from landfills
- Concrete structural system using local aggregates and recycled fly ash
- Proximity to local mass transit to reduce reliance on automobile use

**Capitalized Interest Fund.....4,854,949**

**Financing costs..... 645,051**

Underwriter Fee and Expenses .....\$344,000

Costs of Issuance ..... 301,051

***TOTAL USES OF FUNDS* ..... \$49,500,000**

**Financing Structure:**

- Negotiated public offering
- General obligation of the borrower
- Variable rates
- 40-year term, final maturity 2047
- Letter of Credit anticipated from Sovereign Bank, confirming Letter of Credit from Natixis Bank
- Expected rating Aa2/MIG1 (Moody's)

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## II. FINANCIAL ANALYSIS:

### Charles R. Drew University of Medicine and Science

#### Statement of Activities

#### Unrestricted

	Fiscal Year Ended June 30,		
	2006	2005	2004
<b>Operating:</b>			
<b><i>Revenues:</i></b>			
Tuition and fees, net	\$ 1,438,089	\$ 1,293,684	\$ 1,075,982
Federal grants and contracts	41,132,738	43,575,022	42,905,345
State and local government grants and contracts	26,873,782	25,844,155	28,802,120
Private gifts, grants and contracts	978,678	2,064,863	2,855,067
Sales and services of educational departments	363,828	257,855	813,936
Investment income	2,037,840	1,339,281	1,091,404
Other	94,209	73,849	56,458
Net assets released from restriction	596,212	1,228,360	1,293,033
Total revenues	<u>73,515,376</u>	<u>75,677,069</u>	<u>78,893,345</u>
<b><i>Expenses:</i></b>			
Instruction	12,880,251	14,160,624	15,786,224
Public service	20,838,426	21,920,023	22,918,352
Research	18,201,999	17,397,578	17,269,484
Academic support	6,020,650	6,519,430	6,048,034
Student services	2,110,682	1,905,207	1,673,021
Institutional support	8,770,641	9,556,804	9,312,706
Fund-raising	526,724	552,303	719,444
Operation and maintenance of plant	1,850,659	1,414,397	1,468,773
Total expenses	<u>71,200,032</u>	<u>73,426,366</u>	<u>75,196,038</u>
<b>Change in net assets</b>	<b>2,315,344</b>	<b>2,250,703</b>	<b>3,697,307</b>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>26,385,516</u>	<u>24,134,813</u>	<u>20,437,506</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 28,700,860</u>	<u>\$ 26,385,516</u>	<u>\$ 24,134,813</u>

**Charles R. Drew University of Medicine and Science**  
**Statement of Financial Position**

	As of June 30,		
	2006	2005	2004
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 12,859,565	\$ 12,026,221	\$ 11,241,614
Restricted cash & cash equivalents	2,493,957	2,702,192	2,405,857
Grants receivable, net	6,796,011	8,383,588	9,611,988
Other receivables, net	69,107	237,244	120,683
Notes receivable, net	233,220	232,010	194,898
Prepaid expenses & other assets	437,409	54,586	8,673
Deferred charge	1,592,963	1,615,319	1,635,356
Investments held by others	34,707,414	27,436,550	21,249,673
Property, plant and equipment, net	7,495,744	7,318,830	7,476,233
Total assets	\$ 66,685,390	\$ 60,006,540	\$ 53,944,975
<b>LIABILITIES AND NET ASSETS:</b>			
Accounts payable	\$ 3,374,210	\$ 4,837,671	\$ 5,382,709
Accrued expenses	2,833,507	3,218,167	3,320,069
Refundable advances	3,096,981	2,309,909	2,268,020
Deferred revenue	1,592,963	1,615,319	1,635,356
Obligations under capital leases	520,764	169,336	244,710
Total liabilities	11,418,425	12,150,402	12,850,864
<b>Net assets:</b>			
Unrestricted	28,700,860	26,385,516	24,134,813
Temporarily restricted	843,197	756,769	1,245,445
Permanently restricted	25,722,908	20,713,853	15,713,853
<b>TOTAL NET ASSETS</b>	55,266,965	47,856,138	41,094,111
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 66,685,390	\$ 60,006,540	\$ 53,944,975

Financial Ratios

	<b>Proforma (a)</b>			
	<b><u>FYE 6/30/06</u></b>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Debt service coverage (x)	1.32	19.59	24.88	88.74
Debt to expendable net assets (x)	1.47	0.02	0.01	0.01
Expendable net assets to operations (x)		0.41	0.37	0.34
Margin (%)		3.1%	3.0%	4.7%

(a) Recalculates 2006 results to include the impact of this proposed financing

## **Financial Discussion:**

### **The University continues to post positive operating results over the review period.**

The University's primary sources of revenues are federal and state and local government gifts, grants and contracts, which make up 92.6% of total revenues. Other revenues include investment income, net tuition and fees and private gifts, grants and contracts, providing the University with a well-diversified revenue base. Net tuition and fees for FY 2006 totaled approximately \$1.4 million and has increased nearly 34% from FY 2004. Private gifts, grants and contracts have decreased significantly over the review period, nearly 67%, primarily due to the University's reduction in clinical trial revenue. However, management is planning to embark on a capital campaign with a goal of \$10 million over 5 years to make up for declining revenues in this category.

Operating expenses totaled \$71.2 million in FY 2006, decreasing by \$2.2 million or 3% as compared to the prior fiscal year. Keeping their expenses down has allowed the University to post operating results of \$2.3 million in FY 2006.

### **The balance sheet is healthy with good liquidity and no prior long-term debt.**

Cash and cash equivalents and investments held by others accounts for 71% of the total assets. Investments held by others represents funds invested in the University of California of Los Angeles' Foundation endowed pool. These investments have exhibited an increase of 63% over the review period, primarily due to three major endowments from the National Institutes of Health. Over the review period, the University received \$5 million per year from the National Institutes of Health to establish an endowment fund, which totaled \$24 million in FY 2006.

The University maintains over \$55 million in total net assets, more than half of which is unrestricted (\$28.7 million). Operating margins have been good, averaging 3.6% over the review period. Historically, the University's debt service coverage ratios have been very strong due to no long-term debt. With this proposed financing, the proforma debt service coverage ratio is satisfactory at approximately 1.32x and the University is leveraged as indicated by the 1.47x proforma debt to expendable net assets ratio. The University's financial base has steadily grown and operated without deficits for the past seven years significantly increasing its primary reserves. Management anticipates meeting its additional debt obligation through continued sound financial management and strategic planning.

### **The University is restructuring to lessen its reliance on a single affiliate teaching hospital for clinical training.**

In September 2006, the County of Los Angeles Department of Health Services lost its certification for the King/Drew Medical Center ("KDMC") from the Centers for Medicaid and Medicare Services. KDMC was the University's main teaching hospital and the loss of certification had a major effect on the University's Graduate Medical Education Program, which is one of its academic programs described on page 7.

Despite this event, the University has regrouped and is in the process of restructuring. The University's new model will (a) secure alternative clinical affiliate hospital partners and community clinic training programs, (b) reduce the number of residency programs, (c) retain and recruit a cadre of core teaching faculty for resident and medical student training and (d) integrate training faculty with the University's research and faculty practice-plan activities. This restructuring of clinical training affiliate hospitals will strengthen undergraduate and graduate medical education in the next two to four years.

### **III. BACKGROUND:**

#### **General:**

Charles R. Drew University of Medicine and Science (the "University") is a nonprofit educational institution that is comprised of a college of medicine, a college of allied health and a variety of educational, research, and community programs. The University is an academic health sciences center developing students and ideas that improve the quality of health for medically underserved and multicultural populations.

Located in one of California's most socially and economically disadvantaged communities, the University's diverse and complex patient population contributes to a strong academic environment for health disparities research and practice. The South Los Angeles area is 65% Latino, 25% African-American and 10% Caucasian, Native-American, or Asian/Pacific Islander, and it has some of the highest rates of preventable and under-treated health problems in the country. Nearly 35% of its patient population lives below the federal poverty level. This population manifests high morbidity and mortality rates recognized by the National Institutes of Health as priority national health concerns and have had suboptimal participation in clinical research studies and clinical trials.

#### **Administration:**

The University is governed by a Board of Directors (the "Board"), which may consist of up to twenty-one members. All members of the Board hold a term of office of three years. The Board may be composed of: one to three representatives selected by the Charles R. Drew Medical Society; no more than one representative selected by the Golden State Medical Association; no more than one former graduate of the University; the Dean of the University of California at Los Angeles School of Medicine or his designee; the principal of the King/Drew Magnet High School of Medicine and Science; and the Medical Director of the Martin Luther King Hospital, who shall be a non-voting, ex-officio member. In addition, the Board shall have full discretion to select five Trustees of national stature, nine residents from the local community that is served by the University, and all additional Trustees as it deems appropriate.

#### **Accreditations and Affiliations:**

The University is accredited by the Western Association of Schools and Colleges. It is also a recipient of a number of other program-specific accreditations including the Commission on Accreditation of Allied Health Programs and the Accreditation Review Committee on Education for the Physician Assistant.

**Academic Programs:**

The University offers 17 academic programs organized into two colleges: College of Science and Health, which features one master of science, 11 undergraduates and certificates, and one continuing education program; and College of Medicine, which is comprised of four programs: the Drew/UCLA Medical Education Program, the Graduate Medical Education Program, the Master of Science in Clinical Research, and the Continuing Medical Education Program.

**IV. OUTSTANDING DEBT:**

<u>Issue:</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding as of 06/30/06</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing Debt:		-0-	-0-
<i>Proposed:</i> CEFA, Series 2007			43,000,000
Total		<u>\$ -</u>	<u>\$ 43,000,000</u>

**V. DUE DILIGENCE:**

Due diligence has been completed with regard to the following items:

- Religious Due Diligence
- Legal Review
- Exempt from Section 94212(b) of the Education Code (California Environmental Quality Act). The Authority has determined that the Applicant has met the requirements of Assembly Bill 1749.

**VI. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a Resolution in an amount not to exceed \$43,000,000 for Charles R. Drew University of Medicine and Science subject to a bond rating of at least an “A” by a nationally recognized rating agency and meeting the standard bond issuance guidelines for “A” rated debt