

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: University of Redlands ("The University") Redlands, CA San Bernardino County</p> <p>Facility Type: Private University</p> <p>Project Location: 1200 E. Colton Ave Redlands, CA 92373</p> <p>Accreditation: Western Association of Schools and Colleges</p>	<p>Amount Requested: \$24,500,000</p> <p>Date Requested: April 24, 2008</p> <p>Resolution Number: 254</p>																
<p>Use of Proceeds: Bond proceeds will be used to finance the construction of a new arts center, library renovations and infrastructure improvements.</p>																	
<p style="text-align: center;">Type of Issue: Negotiated public offering, 30-year term, fixed rates</p> <p>Security Loan Provisions: General obligation pledge</p> <p>Credit Enhancement: None</p> <p>Expected Credit Rating: A (Fitch)/A3 (Moody's)</p> <p>Senior Manager: Wedbush Morgan Securities</p> <p>Co-Manager: De La Rosa & Co.</p> <p>Bond Counsel: Squire, Sanders & Dempsey LLP</p>																	
<p>Financial Overview: The University has experienced fluctuating revenues over the review period which the University attributes primarily to a decrease in enrollment. Total net assets appear to have increased as a result of a capital campaign and a positive growth in investments. The University's balance sheet appears to reflect acceptable debt service coverage ratio and good liquidity.</p>																	
<table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: left;"><u>Sources of funds:</u></th> <th colspan="2" style="text-align: left;"><u>Uses of funds:</u></th> </tr> </thead> <tbody> <tr> <td style="width: 30%;">Par Amount of Bonds</td> <td style="width: 20%; text-align: right;">\$24,500,000</td> <td style="width: 30%;">Project Fund</td> <td style="width: 20%; text-align: right;">\$24,075,000</td> </tr> <tr> <td></td> <td></td> <td>Financing Costs</td> <td style="text-align: right;">425,000</td> </tr> <tr> <td>Total Sources</td> <td style="text-align: right;"><u>\$24,500,000</u></td> <td>Total Uses</td> <td style="text-align: right;"><u>\$24,500,000</u></td> </tr> </tbody> </table>		<u>Sources of funds:</u>		<u>Uses of funds:</u>		Par Amount of Bonds	\$24,500,000	Project Fund	\$24,075,000			Financing Costs	425,000	Total Sources	<u>\$24,500,000</u>	Total Uses	<u>\$24,500,000</u>
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<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																	
<p>Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$24,500,000 for the University of Redlands subject to a bond rating of at least an "A" category by a nationally recognized rating agency and meeting the standard bond issuance guidelines for "A" category rated debt.</p>																	

STAFF SUMMARY AND RECOMMENDATION

University of Redlands (“The University”)

April 24, 2008

Resolution Number: 254

- I. **PURPOSE OF FINANCING:** The University plans to construct a new Center of the Arts building and complete several renovation and improvement projects on existing buildings. This proposed financing is the seventh in a series of financings with CEFA beginning in 1984.

Projects \$24,075,000

Center for the Arts – The proposed Center for the Arts is the first phase in a two-phased effort by the University to consolidate its studio art and art history programs into one state-of-the-art and functional location. The second phase is the expansion of the Glen Wallichs Theatre, which will include support facilities for the University’s Theatre Arts program as well as provide a new venue for theatre productions through the construction of a black box theatre.

- Environmental benefits: The Center for the Arts and the expansion of the Glen Wallichs Theatre will be built to LEED “silver” certification standards.

Infrastructure Improvements – Infrastructure improvements will include improvements to the University’s Energy Center (co-generation plant) with the extension of the hot/chilled water distribution system to the Thompson Aquatics Center, Field House/Fitness Center, Merriam Hall & North Hall.

- Environmental benefits: The proposed extension of the hot/chilled water distribution system will serve to enhance energy efficiency and reduce the campus’ carbon emission footprint by further utilizing the capacity of the co-generation plant located in the University’s Energy Center. An independent consultant estimated that operation of the University’s co-generation plant would reduce the campus’ carbon emission footprint by approximately 30%.

Armacost Library – The proposed renovation of the lower level of the Armacost Library will serve to integrate academic computing and library resources with a new 24 hours/7 days a week student study area. Renovations will include a new academic computer center, instructional technology services, learning spaces, computer labs, collaborative student study areas, a café and administrative offices.

Financing costs.....425,000

Underwriter Fee and Expenses\$203,188

Costs of Issuance..... 221,812

***TOTAL USES OF FUNDS* \$24,500,000**

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II. FINANCIAL ANALYSIS:

University of Redlands
Statement of Activities
Unrestricted

	Fiscal Year Ended June 30,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating activities:			
Revenues:			
Tuition and fees, net	\$ 73,838,140	\$ 73,343,446	\$ 71,811,135
Sales & services of educational departments	402,615	322,925	279,302
Conference & other income	3,477,096	3,036,550	2,730,901
Contributions	3,430,269	4,223,821	4,219,885
Government grants & contracts	1,742,379	1,811,678	1,807,146
Investment return utilized in operations	4,506,536	3,628,633	9,103,162
Interest on notes receivable	-	-	6,163
Net assets released from restriction	3,731,575	3,636,917	3,332,341
Total revenues	<u>91,128,610</u>	<u>90,003,970</u>	<u>93,290,035</u>
Expenses:			
Instruction & research	38,557,886	38,512,810	34,209,174
Public support	1,351,762	1,185,635	1,050,530
Academic support	8,430,793	7,761,287	7,470,759
Student services	14,620,716	13,339,280	12,576,901
Institutional support	18,601,297	17,782,984	16,897,828
Room, board & other auxiliary enterprises	13,606,927	12,943,317	12,653,585
Total expenses	<u>95,169,381</u>	<u>91,525,313</u>	<u>84,858,777</u>
Increase in net assets from operating activities	(4,040,771)	(1,521,343)	8,431,258
Nonoperating:			
Contributions	206,041	286,362	-
Government grants & contracts	961,986	-	-
Investment return, less amounts designated for operations	11,918,546	10,165,050	-
Other income	448	-	-
Other changes	-	(1,835,523)	-
Net assets released from restrictions	632,096	18,595,783	-
Change in net assets from nonoperating activities	<u>13,719,117</u>	<u>27,211,672</u>	<u>-</u>
Change in net assets before cumulative effect of change in accounting principle	9,678,346	25,690,329	-
Change in accounting principle	-	(2,309,502)	-
Change in unrestricted net assets	<u>9,678,346</u>	<u>23,380,827</u>	<u>8,431,258</u>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>103,600,649</u>	<u>80,219,822</u>	<u>71,788,564</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 113,278,995</u>	<u>\$ 103,600,649</u>	<u>\$ 80,219,822</u>

University of Redlands
Statement of Financial Position

	As of June 30,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
ASSETS:			
Cash and cash equivalents	\$ 1,382,334	\$ 1,755,406	\$ 4,353,593
Temporary investments	14,687,671	21,524,526	16,443,534
Student accounts receivable	2,477,847	2,638,741	3,531,325
Other receivables	2,290,832	1,435,732	4,949,581
Inventories	111,544	150,030	121,102
Prepaid expenses and other assets	1,136,625	1,275,869	1,040,277
Contributions receivable	8,739,819	10,677,720	13,150,344
Student loans receivable	8,885,421	7,654,012	7,132,735
Investments	147,569,070	129,416,733	112,990,398
Trust receivables	1,540,792	1,383,820	1,365,013
Property, plant and equipment, net	124,783,069	122,799,550	107,500,983
Other assets	1,523,902	1,626,425	1,400,749
Total assets	<u>\$ 315,128,926</u>	<u>\$ 302,338,564</u>	<u>\$ 273,979,634</u>
LIABILITIES AND NET ASSETS:			
Accounts payable and accrued expenses	\$ 10,790,622	\$ 14,095,057	\$ 13,170,579
Deferred revenue	1,845,844	1,662,679	1,640,503
Asset retirement obligation	2,559,558	2,460,708	-
Bonds and notes payable	60,251,623	61,796,714	49,630,626
Actuarial liability for split-interest agreements	18,971,863	18,396,593	18,471,414
Refundable US government student loans	4,884,140	4,784,304	4,713,006
Total liabilities	<u>99,303,650</u>	<u>103,196,055</u>	<u>87,626,128</u>
Net assets:			
Unrestricted	113,278,995.00	103,600,649.00	80,219,822.00
Temporarily restricted	20,148,173	17,794,767	32,855,602
Permanently restricted	82,398,108	77,747,093	73,278,082
TOTAL NET ASSETS	<u>215,825,276</u>	<u>199,142,509</u>	<u>186,353,506</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 315,128,926</u>	<u>\$ 302,338,564</u>	<u>\$ 273,979,634</u>

Financial Ratios

	Proforma (a)			
	<u>FYE 6/30/07</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Debt service coverage (x)	3.78	5.32	9.82	4.83
Debt to expendable net assets (x)	0.60	0.45	0.51	0.44
Expendable net assets to operations (x)		1.40	1.33	1.33
Margin (%) *		9	22	9

(a) Recalculates 2007 results to include the impact of this proposed financing

* Nonoperating results included in Total Revenues

Financial Discussion:

The University has experienced fluctuating revenues over the review period which the University attributes primarily to a decrease in enrollment.

The University relies on net tuition and fees as a primary source of revenue. For FY 2007, these revenues represented 81% of total revenues. Given that the University relies heavily on student-derived fees, ongoing tuition growth is essential for sustaining balanced operating performances.

In 2005, the University experienced a drop in enrollment, primarily associated with the School of Business. The University believes this drop in enrollment was the result of introducing a new Bachelor of Science degree featuring significant programmatic changes that were not well-received. University management has since undertaken several initiatives to improve enrollment results and now reports it anticipates enrollment levels to return to previous levels as soon as 2008.

Total net assets appear to have increased as a result of a capital campaign and a positive growth in investments. The University's balance sheet appears to reflect acceptable debt service coverage ratio and good liquidity.

In 2004, the University embarked on a capital campaign with a goal of reaching \$100 million to support six key areas of the campus: endowment, academic programs, the annual Redlands Fund, facilities, the Johnston Center for Integrative Studies and other special gifts. In December 2007, it was announced that the campaign had reached over \$106 million, the highest amount ever raised in a single campaign in the University's history.

With the support from the capital campaign and investment returns, total assets have grown from \$273 million to more than \$315 million over the review period, a 15% increase. Investments comprised the largest category at 47% of total assets. There was also a substantive increase in the market value of the University's investments in FY 2007 due to improved market conditions. Investments have increased 31%, from \$112 million in FY 2005 to \$147 million in FY 2007.

The University's current financial strength appears to be solid. It maintains nearly \$316 million in total net assets, the majority of which are unrestricted (\$113 million). In FY 2007, the University's debt service coverage ratio was 5.32x. With this proposed financing, its pro forma debt service coverage ratio will be an acceptable 3.78x, indicating the University's likely ability to manage the additional debt.

III. ENROLLMENT STATISTICS:

The following table illustrates enrollments for the University's fall term for the current and last four academic years.

Enrollments – Full Time Equivalents:

	Fall 2003	Fall 2004	Fall 2005	Fall 2006	Fall 2007
College of Arts & Science	2,396	2,523	2,528	2,464	2,455
School of Education	425	461	496	582	591
School of Business	1,490	1,481	1,189	1,012	1,119
Totals	4,311	4,465	4,213	4,058	4,165

IV. BACKGROUND:

General:

The University of Redlands (the "University") is a California non-profit, public benefit corporation located in Redlands, California. Founded in 1907 by American Baptists, the University has since maintained an historic relationship with that denomination, affirming their importance in the establishment of the University. The University's relationship with the American Baptists does not, however, impose any limits or restrictions on the student body, faculty, administration or Board of Trustees of the University.

Administration:

The Board of Trustees consists of up to thirty-nine members, thirteen of whom generally are elected annually for three-year terms. There are currently thirty-five members and four vacancies on the Board. Members of the Board of Trustees represent a diverse spectrum of the community and include business, financial, legal, cultural and educational interests. Trustees can serve a maximum of three consecutive terms; thereafter, at least one year must lapse before re-election.

The Board of Trustees is responsible for the overall management of the University, including its physical assets, development programs, academic policies, long-range planning, and financial and budgetary affairs. The Board holds regular meetings four times a year. The Board of Trustees has eight standing committees: Executive, Finance, Investment, Academic Affairs, Campus Planning, Student Life, Nominations and Awards, and University Relations

Accreditations and Affiliations:

The University is accredited by the Western Association of Schools and Colleges and has, in addition, programmatic accreditation by the National Association of School of Music, the American Speech-Language Hearing Association, and the American Chemical Society. The University is also accredited by the California Commission on Teacher Credentialing.

Academic Programs:

The University offers degrees in four major colleges: the College of Arts and Sciences, the Johnston Center for Integrative Studies, the School of Education and the School of Business.

V. OUTSTANDING DEBT:

Issue:	Original Issue Amount	Amount Outstanding as of 06/30/07	Estimated Amount Outstanding After Proposed Financing
Existing Debt:			
CEFA, Series 2003A	\$ 17,280,000	\$ 15,925,000	\$ 15,925,000
CEFA, Series 2003B	17,000,000	15,420,000	15,420,000
CEFA, Series 2005	27,180,000	26,780,000	26,780,000
Bank note payable		686,250	686,250
Proposed:			
CEFA, Series 2008			24,500,000
Total		\$ 58,811,250	\$ 83,311,250

VI. DUE DILIGENCE:

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

- Religious Due Diligence
- Legal Review
- Compliance with Section 94212(b) of the Education Code – California Environmental Quality Act

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a Resolution in an amount not to exceed \$24,500,000 for the University of Redlands subject to a bond rating of at least an “A” category by a nationally recognized rating agency and meeting the standard bond issuance guidelines for “A” category rated debt.