

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY  
BOND FINANCING PROGRAM**

**EXECUTIVE SUMMARY**

<p><b>Applicant:</b> California Lutheran University ("CLU") Thousand Oaks, CA Ventura County</p> <p><b>Facility Type:</b> Private University</p> <p><b>Project Location:</b> Thousand Oaks, CA</p> <p><b>Accreditation:</b> Western Association of Schools and Colleges</p>	<p><b>Amount Requested:</b> \$40,000,000</p> <p><b>Date Requested:</b> June 26, 2008</p> <p><b>Resolution Number:</b> 258</p>																												
<p><b>Use of Proceeds:</b> Bond proceeds will be used to finance various capital improvement projects as well as to refund the CEFA Series 2004B bonds.</p>																													
<p><b>Type of Issue:</b> Negotiated public offering, 31-year term, fixed &amp;/or variable interest rates</p> <p><b>Security Loan Provisions:</b> General obligation pledge, Debt service reserve fund, Revenue pledge, Secured with real property with an appraised value equal or greater than the par amount of the bonds</p> <p><b>Credit Enhancement:</b> None</p> <p><b>Underlying Credit Rating:</b> Baa1 (Moody's)</p> <p><b>Senior Manager:</b> Prager, Sealy &amp; Co., LLC</p> <p><b>Bond Counsel:</b> Nixon Peabody LLP</p>																													
<p><b>Environmental Benefits:</b> CLU is expected to incorporate several energy-efficient and environmentally-beneficial designs and materials into their construction and renovation projects including Energy-Star appliances, low-flow toilets, and solar roofing panels. Additionally, CLU will seek LEED Silver certification for its new residence hall and Swensen Center.</p>																													
<p><b>Financial Overview:</b> Total revenues appear to have steadily increased over the review period and to have outpaced the growth in expenditures. CLU's financial strength appears to be sound with approximately \$120.8 million in total net assets. CLU's pro-forma debt service coverage ratio is an acceptable 4.58x.</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;">\$40,000,000</td> <td style="width: 30%;">Project Fund</td> <td style="width: 20%; text-align: right;">\$28,510,000</td> </tr> <tr> <td>Original Issue Discount</td> <td style="text-align: right;">(1,917,942)</td> <td>Refunding</td> <td style="text-align: right;">3,840,000</td> </tr> <tr> <td></td> <td></td> <td>Debt Service Reserve Fund</td> <td style="text-align: right;">3,836,150</td> </tr> <tr> <td></td> <td></td> <td>Capitalized Interest</td> <td style="text-align: right;">1,115,225</td> </tr> <tr> <td></td> <td></td> <td>Financing Costs</td> <td style="text-align: right;"><u>780,683</u></td> </tr> <tr> <td>Total Sources</td> <td style="text-align: right;"><u>\$38,082,058</u></td> <td>Total Uses</td> <td style="text-align: right;"><u>\$38,082,058</u></td> </tr> </tbody> </table>		<u>Sources of funds:</u>		<u>Uses of funds:</u>		Par Amount of Bonds	\$40,000,000	Project Fund	\$28,510,000	Original Issue Discount	(1,917,942)	Refunding	3,840,000			Debt Service Reserve Fund	3,836,150			Capitalized Interest	1,115,225			Financing Costs	<u>780,683</u>	Total Sources	<u>\$38,082,058</u>	Total Uses	<u>\$38,082,058</u>
<u>Sources of funds:</u>		<u>Uses of funds:</u>																											
Par Amount of Bonds	\$40,000,000	Project Fund	\$28,510,000																										
Original Issue Discount	(1,917,942)	Refunding	3,840,000																										
		Debt Service Reserve Fund	3,836,150																										
		Capitalized Interest	1,115,225																										
		Financing Costs	<u>780,683</u>																										
Total Sources	<u>\$38,082,058</u>	Total Uses	<u>\$38,082,058</u>																										
<p><b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																													
<p><b>Staff Recommendation:</b> Staff recommends the Authority approve a Resolution in an amount not to exceed \$40,000,000 for California Lutheran University subject to a bond rating of at least a "Baa" category by a nationally recognized rating agency and meeting the standard bond issuance guidelines for "Baa" category rated debt.</p>																													

**STAFF SUMMARY AND RECOMMENDATION**

**California Lutheran University (“CLU”)**

June 26, 2008

Resolution Number: 258

**I. PURPOSE OF FINANCING:** CLU plans to construct several new facilities, including a residence hall, cafeteria, academic building and a radio station. CLU may also renovate several facilities to modernize them as well as to increase their energy efficiency. In addition, CLU will refund the taxable CEFA Series 2004B bonds.

**Projects .....\$28,510,000**

Trinity Hall – The construction of an 85,000 square foot residence hall will result in 220 suite-style dorms which are necessary due to the increasingly high demand for on-campus housing.

Facilities Building – The existing facilities building must be removed for the construction of Trinity Hall. The new 10,000 square foot facilities building will be constructed away from the campus core, allowing for the residential and academic precincts to be fully developed.

Radio Station – CLU plans to acquire an existing radio station and tower in Santa Barbara for the purpose of obtaining a stronger frequency for CLU’s successful KCLU radio station. The KCLU station is affiliated with CLU’s Communications Department such that the communications students operate and produce on-air segments as part of their curriculum.

Student Union/Cafeteria – The construction of an updated and modernized Student Union Building will replace an existing cafeteria that is not up-to-date with current disability and health codes. The 14,000 square foot building will also be located in a more central location for students.

Swenson Center – The new 33,000 square foot facility will house CLU’s Social Sciences academic programs which will include 10 classrooms, 44 faculty offices and will replace facilities that are currently converted ranch storage buildings.

Renovations – CLU may also renovate, remodel and rehabilitate existing academic and residential facilities, with the intent of extending the life-span of these buildings while also increasing energy efficiency.

Environmental benefits of all of the projects will include, but not be limited to:

- The facilities building and the Swenson Center will be designed to meet or exceed LEED Silver Certification
- Purchase and use of Energy Star appliances and water-efficient fixtures
- Purchase and use of low or no volatile organic compounds (VOC) building materials and furnishings
- Purchase and use of recycled building materials, products and furnishings
- Installation of campus-wide energy management system controlled from facilities building
- Installation of dual low-flow setting toilets
- Use of “green” housekeeping techniques and “green” chemical and solvent substitutes
- Installation of solar panels on roof

**Refunding ..... 3,840,000**

CLU intends to refund all or a portion of the taxable CEFA Series 2004B bonds. The Series 2004B bonds are taxable variable rate demand obligations and were originally used to refund CEFA Series 1998A bonds.

The Series 2004B bonds are eligible to be converted to a tax-exempt status and CLU expects to achieve a lower cost of funds on these bonds as a result of converting them to tax-exempt fixed rate bonds.

**Debt Service Reserve Fund .....3,836,150**

**Capitalized Interest ..... 1,115,525**

**Financing costs.....780,683**

Underwriter Fee and Expenses ..... \$409,898

Costs of Issuance ..... 370,785

***TOTAL USES OF FUNDS* ..... \$38,082,058**

## II. FINANCIAL ANALYSIS:

**California Lutheran University**  
**Statement of Activities**  
**Unrestricted**

	Year Ended May 31,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b><i>Revenues:</i></b>			
Tuition and fees, net	\$ 39,544,177	\$ 36,476,767	\$ 32,722,551
Government grants	1,429,964	1,593,986	1,782,572
Contributions	2,815,159	2,555,520	2,485,730
Endowment income	3,635,252	2,439,649	1,185,638
Net gains (losses) on other investments	(26,813)	(66,935)	54,719
Interest & dividends	936,997	-	-
Sales & services of educational activities	2,074,122	2,027,804	1,605,808
Other sources	1,661,579	2,306,674	1,628,388
Sales & services of auxiliary enterprises	10,458,606	9,607,866	8,421,171
Net assets released from restrictions	20,963,683	5,790,398	4,987,254
Reclassifications	(36,267)	(195,775)	64,409
Total revenues	<u>83,456,459</u>	<u>62,535,954</u>	<u>54,938,240</u>
<b><i>Expenses:</i></b>			
Instruction	21,296,284	19,566,202	19,127,711
Public service	3,042,069	2,588,270	2,600,693
Academic support	4,656,235	3,951,749	3,524,400
Student services	9,513,271	8,686,201	6,311,168
Auxiliary enterprises	10,663,307	9,201,417	8,265,222
Institutional support	11,161,526	10,185,783	8,999,014
Operation & maintenance of plant	4,047,527	3,063,052	2,833,382
Depreciation	4,359,846	3,492,001	3,105,460
Interest	2,138,297	1,340,751	1,534,501
Less: Allocated expenses	(10,545,670)	(7,895,804)	(7,473,343)
Total expenses	<u>60,332,692</u>	<u>54,179,622</u>	<u>48,828,208</u>
Change in net assets before cumulative effect of change in accounting principle	23,123,767	8,356,332	6,110,032
Cumulative effect of change in accounting principle	-	(810,059)	-
Change in net assets	23,123,767	7,546,273	6,110,032
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>64,535,957</u>	<u>56,989,684</u>	<u>50,879,652</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 87,659,724</u>	<u>\$ 64,535,957</u>	<u>\$ 56,989,684</u>

**California Lutheran University**  
**Statement of Financial Position**

	As of May 31,		
	2007	2006	2005
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 13,736,830	\$ 8,994,662	\$ 4,678,019
Receivables			
Student accounts	1,217,520	982,047	1,050,652
Grants	183,398	170,532	81,308
Contributions	3,117,407	7,383,708	5,177,854
Other	397,381	383,448	351,434
Prepaid expenses, inventories & deposits	437,829	475,833	472,790
Student notes receivable	1,543,772	1,486,632	1,491,213
Endowment investments	56,727,217	48,818,895	44,279,589
Deferred gift investments	4,028,755	2,973,932	2,865,278
CLU Educational Foundation investments	10,344,195	10,187,008	9,233,340
Other investments	1,460,030	1,753,673	1,861,233
Funds held in trust by others	319,138	267,117	482,551
Deposits with trustee			
Cash & short-term investments	2,749,228	5,786,993	27,361,904
Corporate & government bonds	374,000	5,408,229	390,000
Debt acquisition costs	707,005	738,428	769,851
Construction in progress	910,262	19,315,908	19,236,726
Property, plant & equipment	85,280,541	60,851,153	38,951,386
Total assets	\$ 183,534,508	\$ 175,978,198	\$ 158,735,128
<b>LIABILITIES AND NET ASSETS:</b>			
Accounts payable	\$ 1,929,473	\$ 4,587,939	\$ 4,173,496
Accrued liabilities	5,647,201	5,376,607	3,804,648
Student housing deposits	338,061	283,026	261,180
Deferred revenue	2,181,533	3,294,203	2,109,359
Long-term debt	43,219,384	43,509,538	43,430,586
Annuities payable	7,686,633	7,048,547	6,175,014
Deposits held in trust for others	268,535	192,571	836,482
Government grants refundable	1,463,189	1,459,242	1,445,537
Total liabilities	62,734,009	65,751,673	62,236,302
<b>Net assets:</b>			
Unrestricted	87,659,724	64,535,957	56,989,684
Temporarily restricted	6,452,736	20,324,301	14,855,078
Permanently restricted	26,688,039	25,366,267	24,654,064
<b>TOTAL NET ASSETS</b>	120,800,499	110,226,525	96,498,826
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 183,534,508	\$ 175,978,198	\$ 158,735,128

Financial Ratios

	<b>Proforma (a)</b>			
	<b>FYE 5/31/07</b>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Debt service coverage (x)	4.58	8.73	6.04	3.22
Debt to expendable net assets (x)	0.85	0.47	0.52	0.61
Expendable net assets to operations (x)		1.56	1.57	1.47
Margin		28%	13%	11%

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

## **Financial Discussion:**

**Total revenues appear to have steadily increased over the review period and to have outpaced the growth in expenditures.**

CLU appears to have exhibited solid revenue growth over the review period. In FY 2007 total revenues were \$83.4 million, a 52% increase from \$54.9 million in FY 2005. Key factors accounting for this revenue growth include the consistent growth of net tuition and fees, increased endowment income and net assets released from restrictions.

Net tuition and fees represents 47% of CLU's total revenue base, providing CLU with liquidity and flexibility. Net tuition and fee revenue have grown an average of 6% over the past three years. In FY 2007, net tuition and fees equaled \$39.5 million, up 20% from \$32.7 million in FY 2005.

Over the review period, net assets released from restrictions have significantly increased. In FY 2007, this amounted to \$20.9 million, an increase of approximately \$16 million or 302% from FY 2005. This growth is due to CLU's recent acquisition of several buildings and equipment.

CLU has controlled expenditures, increasing only 11% over the review period. Keeping expenditures in line has allowed CLU to post operating results of \$23.1 million in FY 2007.

**CLU's financial strength appears to be sound with approximately \$120.8 million in total net assets.**

In FY 2007, total net assets increased by \$24 million or 25% from FY 2005 due to increases in cash and cash equivalents, investments, and property, plant and equipment. CLU's seemingly solid growth of property, plant and equipment from \$39 million in FY 2005 to \$85.2 million in FY 2007 is attributed to the construction of several new facilities on campus, including the Sports and Fitness Center, Samuelson Aquatic Center, North Hall and Counseling Center.

CLU currently has approximately \$43.2 million in long-term debt as compared to over \$120.8 million in total net assets. With this proposed financing, CLU's pro forma still appears to be acceptable at 4.58x, indicating CLU's likely ability to support the additional debt.

### **III. BACKGROUND:**

#### **General:**

CLU is a nonprofit, privately endowed, co-educational, nonsectarian university that offers undergraduate, graduate, doctoral, and continuing education programs. CLU's 225-acre principal campus is located in the city of Thousand Oaks, California in Ventura County. CLU is the only private higher education institution with its principal campus located in Ventura County that offers four-year undergraduate, graduate, and doctoral degrees.

CLU was founded in 1959 by the American Lutheran Church and the Pacific Southwest Synod of the Lutheran Church in America and commenced operations on its Thousand Oaks campus in 1961. In 1988, with the merger of three Lutheran Church bodies, CLU became a university of The Evangelical Lutheran Church of America. Notwithstanding CLU's Lutheran affiliation, persons of all religious persuasions are welcome at CLU as members of the student body and faculty. During the 2007-08 academic year, approximately 78% of the full-time undergraduates and approximately 79% of the faculty were not affiliated with the Lutheran Church.

#### **Administration:**

CLU is governed by a Board of Regents of up to 33 persons. Members of the Board (except ex officio members) can be elected to three, three-year terms. The Board exercises all corporate power and controls the officers of CLU. There are currently two vacancies on the Board.

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

CLU is accredited by the Western Association of Schools and Colleges (WASC). The most recent accreditation review of CLU was conducted by WASC in 2007. CLU is also accredited by the Accrediting Commission for Senior Colleges and Universities; National Council for Accreditation of Teacher Education; and the National Athletic Training Association.

CLU is also a member of the National Association of Independent Colleges and Universities; Association of Independent California Colleges and Universities; and the Council of Independent Colleges.

#### **Academic Programs:**

CLU is primarily a liberal arts institution that offers undergraduate, graduate, and professional education programs through its College of Arts and Sciences, School of Business, School of Education, and the Office of Graduate and Professional Studies. In addition, CLU offers summer sessions as an extension of its academic programs.

**IV. OUTSTANDING DEBT :**

<u>Issue:</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding as of 05/31/07</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<b>Existing Debt:</b>			
CEFA, Series 1999	\$ 5,645,000	\$ 2,250,000	\$ 2,250,000
CEFA, Series 2004A	5,465,000	5,465,000	5,465,000
CEFA, Series 2004B	3,840,000	3,840,000	0
CEFA, Series 2004C	27,915,000	27,415,000	27,415,000
Notes Payable	n/a	4,249,384	4,249,384
<b><i>Proposed:</i></b>			
<b>CEFA, Series 2008</b>		<u>40,000,000</u>	<u>40,000,000</u>
Total		<u>\$ 43,219,384</u>	<u>\$ 79,379,384</u>

**V. 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

**VI. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a Resolution in an amount not to exceed \$40,000,000 for California Lutheran University subject to a bond rating of at least a “Baa” category by a nationally recognized rating agency and meeting the standard bond issuance guidelines for “Baa” category rated debt.