

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
501(c)(3) REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	Loyola High School of Los Angeles (Borrower or School)	Amount Requested:	Not to exceed \$22,000,000
Applicant Description:	The Borrower, a California nonprofit religious corporation, owns and operates Loyola High School, an independent all-male private Roman Catholic school serving students in grades 9 to 12.	Date of Board Meeting:	December 14, 2010
		Resolution Number:	10-38
		Type of Bonds:	New Issue
Project Site:	1901 Venice Blvd. Los Angeles, CA 90006	Prepared by: Paula Connors	
Project Description:	I-Bank bonds (2010 Bonds) will be used to effect the retirement of outstanding City of Los Angeles Adjustable Rate Certificates of Participation (Loyola High School of Los Angeles) 2005 Series A (2005 Certificates). The proceeds of the 2005 Certificates were used to finance a portion of the costs of construction of School facilities and refinance taxable loans used to fund land acquisition.		
Use of Bond Proceeds	Bond proceeds will be used to pay the costs of the Project and the costs of issuance.		
Public Benefits:	The Borrower estimates the retirement of the 2005 Certificates will result in interest savings of approximately \$2 million over the next nine years. The savings will be used to expand and enhance the School's curriculum, resulting in the provision of additional educational resources to the community.		
Financing Structure:			
Type of Issue:	Publicly-offered variable-rate securities in authorized denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof.		
Tax Status:	Tax-exempt 501(c)(3) bonds		
Term:	25 years.		
Credit Enhancement:	Direct-pay letter of credit from First Republic Bank supported by a standby letter of credit from the Federal Home Loan Bank of San Francisco		
Credit Rating:	Expected AAA/A-1+ by Standard & Poor's based on the credit rating of the Federal Home Loan Bank of San Francisco		
Est. Sources of Funds:		Est. Uses of Funds:	
Par amount of the bonds	\$22,000,000	Refund 2005 Certificates	\$22,000,000 ¹
Borrower's Equity	\$300,000	Costs of Issuance	\$300,000
TOTAL SOURCES	\$22,300,000	TOTAL USES	\$22,300,000
Financing Team:			
Issuer's Special Counsel:	Stradling, Yocca, Carlson & Rauth		
Bond and Disclosure Counsel:	Squire, Sanders & Dempsey L.L.P.		
Underwriter:	Stone & Youngberg LLC		
Trustee:	Wells Fargo Bank, N.A.		
Staff Recommendation:	Staff recommends approval of Resolution 10-38 for an amount not to exceed \$22,000,000 for Loyola High School of Los Angeles.		

¹ The proposed par amount of \$22 million is expected to be reduced to \$19 million through a planned pre-funded \$3 million redemption of the 2005 Certificates on December 16, 2010, prior to issuance of the 2010 Bonds. The School's request is for an amount not to exceed \$22 million to retain flexibility in the event the redemption does not take place.

BACKGROUND AND HISTORY

The School is a qualified 501(c)(3) non-profit religious corporation, that owns and operates an independent boys private Roman Catholic school serving students in grades 9 to 12 in central Los Angeles, California.

The School was founded in 1865 and became a Jesuit institution in 1911. The School is committed to providing a rigorous college-preparatory education to young men. The School has 1,200 students, with 96 faculty members on a 21 acre campus. The School offers a comprehensive college preparatory curriculum including both secular and religious courses. While the School is Catholic-based, it is also ecumenical and open to students of all faiths; approximately 16% percent of the current student body is non-Catholic. The School's student body is ethnically diverse, and approximately 51% of the students are Latino or African-American. The School strives to provide a well-rounded education putting emphasis on the formation of the whole person.

The School is accredited by the Western Association of Schools and Colleges, the Western Catholic Education Association, Jesuit Secondary Education Association and National Catholic Education Association.

Serving the community is an integral part of the School's mission and philosophy. Students are encouraged to develop their own personal responsibility and contribute back to the community in which they live. Students must fulfill specified community service requirements as a condition for graduation.

The School's mission is to fulfill an important role in the Los Angeles educational community by providing students with affordable and convenient access to a Roman Catholic high school education that meets their intellectual, spiritual, physical and emotional needs. Annual tuition is \$13,810. The School underwrites 35% of the \$21,246 cost of educating every student. In addition, approximately 30% of the student body receives \$2.3 million in financial assistance annually.

GOVERNANCE AND MANAGEMENT

The School is governed jointly by a Board of Regents and Board of Trustees. A listing of the School's Board of Trustees, Board of Regents and Administrative Staff is included in Appendix A.

PROJECT DESCRIPTION

The Project involves financing the retirement of the outstanding amount of the City of Los Angeles Adjustable Rate Certificates of Participation (Loyola High School of Los Angeles) 2005 Series A (2005 Certificates). The 2005 Certificates were originally issued in the amount of \$30 million dollars and secured by a direct pay letter of credit (LOC) from Allied Irish Banks, p.l.c. (AIB). The 2005 Certificates are currently outstanding in the amount of \$22 million (\$3 million of which is expected to be retired from Borrower's funds on December 16, 2010). There is \$19 million expected to be outstanding at closing. As a result of the recent credit rating downgrade of AIB, the Borrower has sustained interest

rate increases on the 2005 Certificates, and proposes to use the proceeds of the 2010 bonds to retire the outstanding 2005 Certificates and to pay the cost of issuance of the 2010 Bonds.

The proceeds of the 2005 Certificates were used to finance the cost of construction and general development of Hannon Hall Science Building and Ardolf Academic Hall, the renovation of portions of Ruppert Hall, and the purchase of adjacent real property for parking and athletic program uses, and to refinance a loan used to acquire the land on which Hannon Hall was constructed. Hannon Hall Science Building is comprised of eight science classrooms, two regular classrooms, and a computer lab. Ardolf Hall is a three-story instructional building housing six classrooms, seven counseling offices, and a 140-seat lecture hall. The Ardolf Hall classrooms are used for religious instruction from time-to-time. Ruppert Hall contains administrative and development offices as well as a chapel and housing for Jesuit residents. The School has advised, and will certify at closing, that School equity provided for the rehabilitation of Ruppert Hall and the construction of Ardolf Hall was sufficient to pay for the rehabilitation attributable to the chapel and housing for Jesuit residents and the construction of the classrooms used for religious instruction, and thus, no facilities for religious worship or instruction or housing were financed by the 2005 Certificates. (See Appendix B – Project Photos).

FINANCING STRUCTURE

The Borrower is requesting approval for the issuance of the 2010 Bonds, tax-exempt bonds in an amount not to exceed \$22,000,000. The 2010 Bonds will be issued pursuant to an indenture between the I-Bank and Wells Fargo Bank, N.A., as Trustee, (Indenture) and a loan of the proceeds of the 2010 Bonds will be made through a loan agreement between the I-Bank and the Borrower (Loan Agreement).

Payment of principal and interest for the 2010 Bonds will be enhanced by a direct pay letter of credit (New LOC) from First Republic Bank, supported by a standby letter of credit from the Federal Home Loan Bank (Standby LOC). The Standby LOC will support the underlying New LOC. Standard & Poor's is expected to assign the 2010 Bonds a credit rating of AAA/A-1+ based on the credit rating of the Federal Home Loan Bank of San Francisco.

In no event shall the 2010 Bonds constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State shall be liable to make any appropriation for the repayment of the 2010 Bonds. The 2010 Bonds constitute a special obligation of the I-Bank, payable solely from revenues consisting primarily of repayments of the loan provided for in the Loan Agreement.

ELIGIBILITY FOR TAX-EXEMPT CONDUIT BOND FINANCING / OPERATION OF THE SCHOOL IN CONFORMANCE WITH STATE LAW

The School is a private all-male Roman Catholic high school recognized and approved by the Diocese of Los Angeles. Bond counsel (Squire, Sanders & Dempsey L.L.P.) was asked to provide a memorandum of advice to the I-Bank discussing whether the

proposed use of proceeds of the 2010 Bonds to benefit the School would be in compliance with applicable state and federal constitutional requirements and court rulings with respect to the issuance of tax-exempt bonds for a private religious school. Borrower's counsel was also asked to provide a memorandum of advice to the I-Bank discussing the effect the School's gender specific admissions requirement would have, if any, on whether the School's admissions policy was in compliance with State law prohibiting discrimination on the basis of gender.

Bond counsel obtained facts from the Borrower and provided the requested advice. In sum, bond counsel concluded that the proposed use of the proceeds of the 2010 Bonds meets the tests for validity articulated by the California Supreme Court (Court) in California Statewide Communities Development Authority v. All Persons Interested (2007) 40 Cal.4th 788 (CSCDA), the most recent California case on the issue of tax-exempt financing for private religious schools. I-Bank counsel has reviewed and concurs with the conclusion reached by bond counsel that the operations at the School, the use of proceeds of the 2010 Bonds, and the repayment structure for the 2010 Bonds, together create a transaction consistent with the Court's four part test.

CSCDA is the Court's articulation of conditions under which tax-exempt bond proceeds may be used to finance a project for a private religious school without violating California's Establishment Clause (Cal. Const. Art XVI, sec.5) or the U.S. Constitution First Amendment's prohibition of "establishment of religion." The Court's four part test for compliance with the California Constitution is summarized as follows:

1. The bond program must serve the public interest and provide no more than an incidental benefit to religion. In order to determine whether this first part of the four part test is satisfied, the Court created an additional two part test:
 - a. The school that is the subject of the revenue bond financing must provide a broad curriculum in secular subjects (which the Court notes was not just a few, but several subjects) and
 - b. The information and coursework used to teach secular subjects must be neutral with respect to religion (meaning while the classes may contain information about religion, the courses must not advocate or oppose any religion).
2. The bond program must be available to both secular and sectarian institutions on an equal basis.
3. The bond program must prohibit use of bond proceeds for religious projects.
4. The bond program must not impose any financial burden on the government.

The Court also requires that, (a) bond proceeds cannot be used for facilities that are used for religious purposes, (b) the financing agreements must prohibit use of financed facilities for religious purposes, and (c) the government is to be paid its costs for the financing. Finally, the Court notes that where a financing meets the Court's four part test related to the California Constitution, the financing will necessarily meet the two part test developed for review of the financing under the U.S. Constitution.

Borrower's counsel obtained facts from the Borrower and provided the requested advice as to the effect of the School's single-gender admissions policy. In sum, Borrower's counsel concluded that the School is not a business enterprise and thus is not subject to the application of the Unruh Act, California's overarching anti-discrimination statute. Borrower's counsel further concluded that, because the School is controlled by a private, religious, organization and does not receive government funding, the School's admissions policy is consistent with all applicable antidiscrimination provisions of the United States and California Constitutions. I-Bank counsel has reviewed the advice memorandum and has accepted the conclusion of Borrower's counsel as to the School's compliance with Federal and State law.

PUBLIC BENEFITS

The Borrower estimates the retirement of the 2005 Certificates will result in interest savings of a minimum of \$2 million over the next nine years. This savings will result in related reductions of overall operating costs and will enable the Borrower to enhance educational curriculum activities such as increasing the number of required and elective courses by adding an instructional period to the school day.

This 2010 Bonds will allow the Borrower to take advantage of a provision (due to expire December 31, 2010) of the federal economic stimulus permitting Federal Home Loan Banks to issue standby letters of credit in support of conduit revenue bonds.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Describe:
TEFRA	
Date of TEFRA	December 8, 2010
Publications	<i>The Sacramento Bee</i> <i>Los Angeles Times</i>
Oral/Written Comments Received	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Issues?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES, Explain: Given the religious and single-gender nature of the School's operation, the financing needed to be reviewed for compliance with constitutional limitations.
ELIGIBILITY REVIEW	
Borrower meets all of the I-Bank eligibility criteria? <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> 1. Project is in the State of California. 2. Borrower is capable of meeting its obligations incurred under the proposed loan agreement, and, in particular as to its loan repayment obligations which secure the 2010 Bonds, based upon its ability to satisfy the requirements imposed by First Republic Bank, as provider of a direct pay letter of credit. 3. Payments to be made by the Borrower to the I-Bank under the proposed loan agreement are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments on the 2010 Bonds. 4. The proposed financing is appropriate for the Project. 5. The Borrower has represented that the facilities are consistent with any existing local or regional comprehensive plans.
The Project meets the Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for I-Bank Staff by the Board: <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date:

RECOMMENDATION

Staff recommends approval of Resolution 10-38, for an amount not to exceed \$22,000,000 for Loyola High School of Los Angeles.

**APPENDIX A –
BOARD OF REGENTS, TRUSTEES AND ADMINISTRATIVE STAFF**

**LOYOLA HIGH SCHOOL OF LOS ANGELES
BOARD OF REGENTS**

NAME	TITLE
David De Vito	Chairman
Karla Ahmanson.	Member
Thomas Barrack, Jr.	Member
Kevin Clifford	Member
Barry Connell	Member
Richard Dunn	Member
Michael Enright	Member
Kenneth Fearn	Member
Peter Filice, S.J.	Member
John Girardi	Member
Rev. Gregory Goethals, S.J.	Member
Patrick Graham	Member
James Hannon	Member
F. Glenn Harvey	Member
Philip Hawley	Member
Stanley Hayden	Member
James Hirschmann III	Member
Mark Holscher	Member

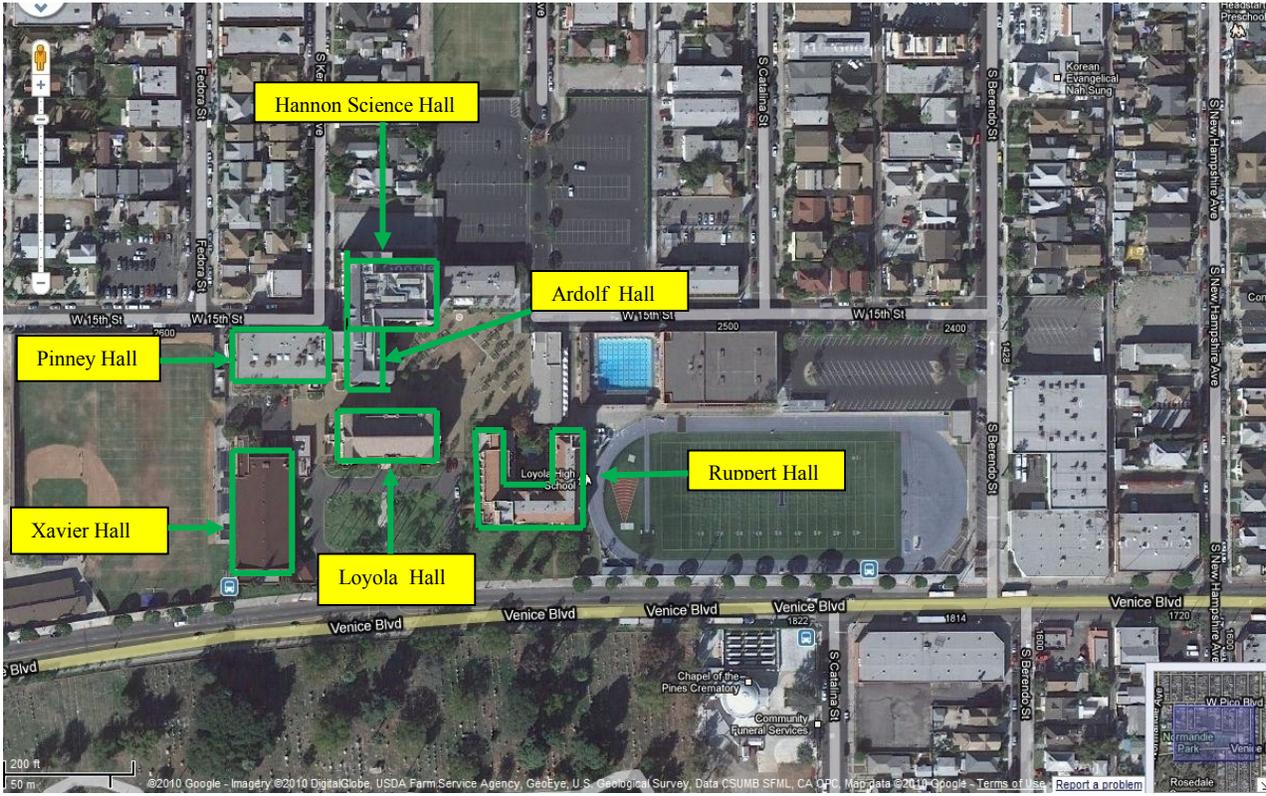
NAME	TITLE
Dr. Shane Martin	Member
Rev. Robert Mathewson, S.J.	Member
Brendan McCracken	Member
Patty McKenna	Member
William McMorrow	Member
Linda Mennis	Member
James Miles	Member
Rev. William Muller, S.J.	Member
Partick Nally	Member
Peter Nolan	Member
Jose Plana	Member
Rev. Thomas Rausch, S.J.	Member
Christopher Rising	Member
Edward Roski, Jr.	Member
Albert Sanford III	Member
Rev. Scott Santarosa, S.J.	Member
Colin Shepherd	Member
Robert Smith III	Member

**LOYOLA HIGH SCHOOL OF LOS ANGELES
BOARD OF TRUSTEES**

TRUSTEE NAME	TITLE
Michael Enright	Chairman
Rev. Peter Filice, S.J.	Secretary/Treasurer
Barry Connell	Member
Philip Hawley	Member
Stanley Hayden	Member
Rev. Robert Mathewson, S.J.	Member
Linda Mennis	Member
Rev. William Muller, S.J.	Member
Rev. Thomas Rausch	Member
Rev. Scott Santarosa, S.J.	Member
Robert Smith III	Member

ADMINISTRATION STAFF	
Fr. Gregory Goethals, SJ	President
Frank Kozakowski	Principal
John Baker	Vice Principal, Advancement
Jim Rich	Chief Financial Officer

APPENDIX B – PROJECT PHOTOS



Loyola Hall



Hannon Hall Science Building