

MEMO

Economic Development Department



August 22, 2018

TO: Honorable Mayor and City Council

VIA: Gary Halbert, City Manager *GH*

FROM: Eric Crockett, Director *EC*

RE: University of Saint Katherine Exclusive Right to Negotiate

On May 22, 2018, the City Council acknowledged the City Manager's extension of an Exclusive Negotiating Agreement (ENA) with the University of Saint Katherine (USK). The extension provided an additional ninety (90) days with an ability to extend for one more ninety (90) day period. The extension was the second phase of the ENA that provided additional time for staff to evaluate USK's financial capabilities to build, maintain and operate a new facility on the University and Innovation District property. The following is a report of our findings that support our recommendation to extend the ENA for the final ninety-day period. The additional ninety days will allow the parties time to negotiate an option to lease agreement for a 10-acre parcel on the University and Innovation District property. The option to lease will allow USK an appropriate amount of time to conduct a capital fundraising campaign to construct their initial facility.

Background:

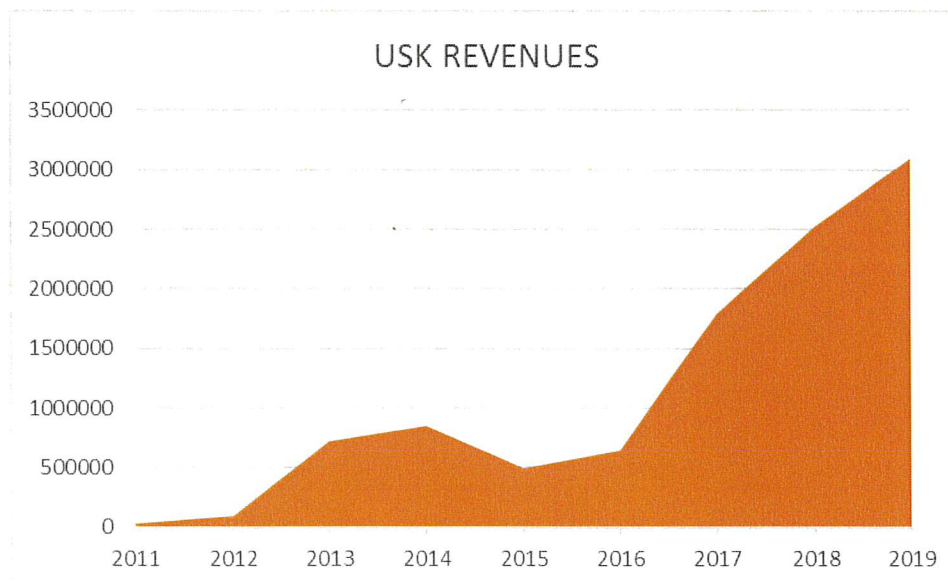
USK is a private, non-profit California public benefit corporation located in San Marcos, California. The University began instruction in September 2011 and was accredited by the Western Association of Schools and Colleges and University Commission (WASCUC) in February 2016. USK currently enrolls approximately 230 Full Time Equivalent (FTE) students. USK offers both Bachelor of Arts (BA) and Bachelor of Science (BS) degree programs. BA programs include Art, Business Management, History, Literature, Interdisciplinary Studies, Music, and Orthodox Christian Theology, while BS programs include Biochemistry & Chemistry, Biological Sciences, and Kinesiology. USK is an independent, Orthodox Christian institution of higher education. The USK Board of Trustees includes 12 members that represent banking, business, education, legal and philanthropic experience. The University does not receive financial support from any church organization or hierarchy, and no Board members are clergy or employed by the church.

Financial Background:

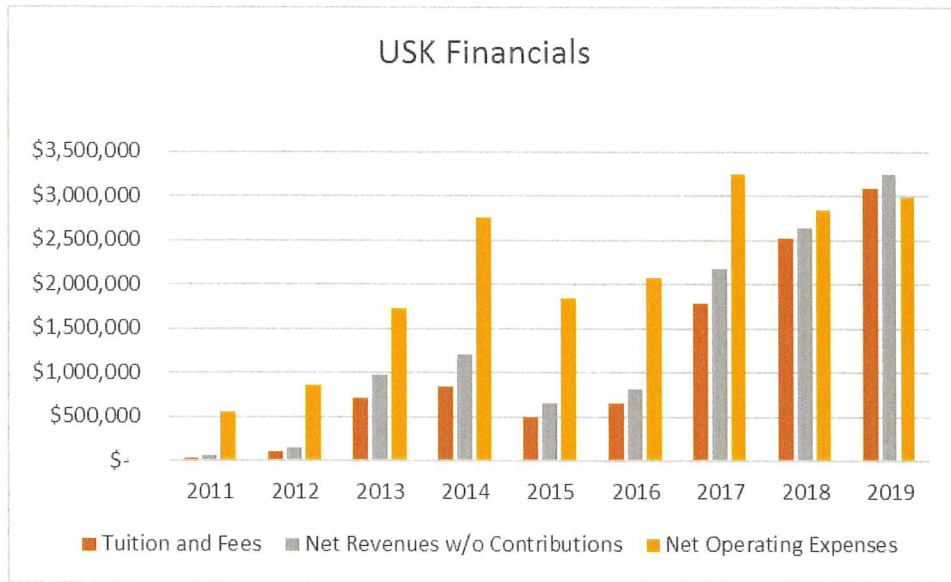
The University of Saint Katherine was incorporated in 2010 as a non-profit public benefit corporation in California. The University is independent and does not receive any funding from the State of California or any church or faith-based organization. Independent non-profit colleges and universities are thereby required to be fully supported by individuals, groups and/or organizations, until such time there are enough full time equivalent (FTE) students to offset operating expenses through the collection of fees and tuition. The president of USK, Dr. Papatheofanis, is the founder and principal benefactor, along with other individual donors who have committed their financial resources to the institution. An example of a well-known institution that was started with private donations was the University of Chicago started in 1890 with \$600,000 dollars for John D. Rockefeller and \$400,000 dollars from the American Baptist Education Society. Unlike the University of Chicago USK did not receive funding or support from a religious organization. The following report was prepared utilizing information contained in the independent audited financial statements for USK, interviews with Dr. Papatheofanis and supplementary information provided by the University. The numbers supplied for 2018 are unaudited and 2019 are projections based on current and projected enrollment.

Financials:

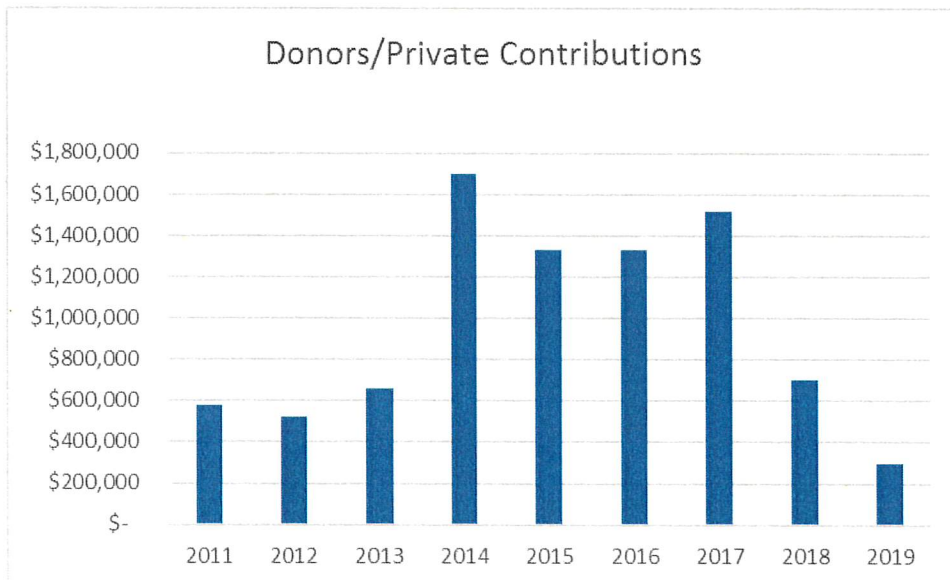
USK first year of operation began in 2011 with 20 FTE students and generated revenue (tuition and fees) of approximately \$55,000 dollars with net operating expenses of \$550,000 dollars. USK received \$580,000 dollars in contributions which covered expenses and resulted in a reserve of approximately \$87,000 dollars at the end of 2011. USK revenues have increased year over year except for 2015 and 2016 when USK experienced a dip in enrollment. The 2017 net revenues, without contributions was approximately \$2.1 million. Total revenues received from tuition and fees are anticipated to be approximately \$12 million dollars by 2019.



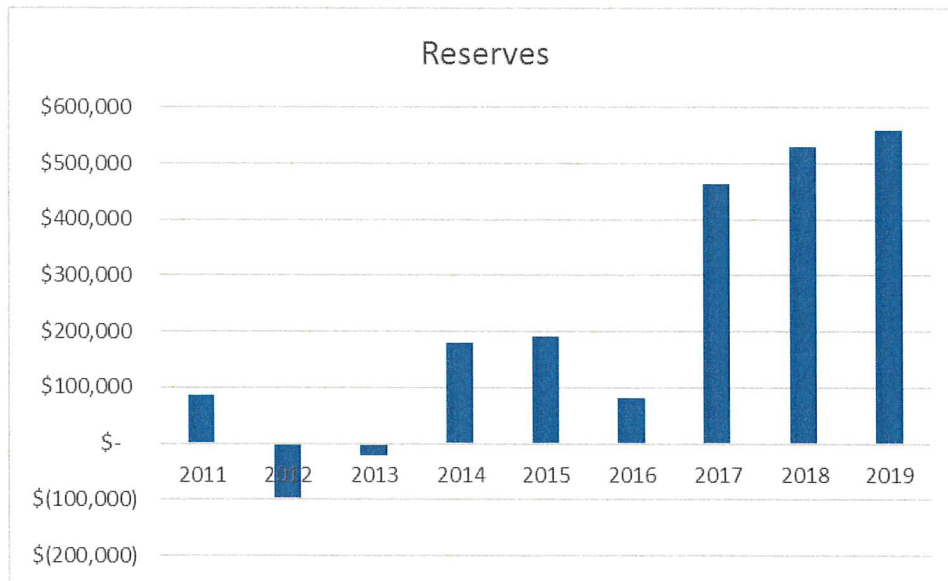
The chart below reflects the financial position of USK without private contributions. USK anticipates, based on current enrollment, that revenues will exceed operating expenses in 2019. USK anticipates having a balanced budget after only seven years of operations which is an unusually rapid attainment to achieve a balanced budget for a private non-profit institution of higher learning. By comparison, one of the nation's premier institutions, the University of Chicago, achieved a balanced budget after 90 years of operations and a two-billion-dollar endowment.



To maintain solvency USK has relied on contributions from private donors to offset increases in operational expenses that support increases in enrollment. These contributions continue to provide resources necessary to expand the Universities offerings while maintaining a low student to teacher ratio (9:1).



Private donor contributions have allowed the University to increase operational capacity while also building up a reserve balance projected to be approximately \$2 million dollars by the end of 2019.



Financial Aid:

As previously reported tuition is set at \$23,500 for the 2018-19 academic year; not including additional fees of \$1,800 for IT, software licenses, and several other services. Students participating in intercollegiate athletics are charged a transportation fee of \$600 per year which covers transportation and costs associated with competitive events. The average tuition discount rate is 36% resulting in an average tuition charge is \$15,040. The average total cost of discounted tuition and fees is \$16,640. Several sources of financial aid are available, particularly to students of demonstrated financial need. USK has its own grant program (\$8,225) and was recently approved for the Federal Pell Grant Program (\$5,920), the Cal Grant (\$9,223), and the Federal Work Study (\$2,400). Consequently, a total of up to \$25,756 is available for tuition coverage. Additionally, GI Bill and other Veterans' Affairs grants are also available. Further financial support is available through low-interest Federal Title IV loan programs.

Participation in the above-mentioned grant and loan programs is contingent on sound institutional finances. A Financial Accountability Score is generated by the Federal Student Aid office each year (<https://studentaid.ed.gov/sa/about/data-center/school/composite-scores>). The composite score reflects the overall relative financial health of institutions along a scale from negative -1.0 to positive +3.0. A score greater than or equal to +1.5 indicates the institution is considered financially responsible. A school with a score less than 1.0 is considered not financially responsible. USK received a score of 2.9. By comparison USC, Stanford and Point Loma Nazarene University received a score of 3.0 while USD received a score of 2.6

Conclusion:

USK has made tremendous progress in becoming an institution that can balance its operational budget on tuition and fees without the need for private donations; in addition to increased enrollment, additional planned bachelor's and master's programs will further enhance its revenue stream. In addition, they have achieved a high score with the Federal Student Aid office allowing them to offer a variety of financial aid packages to their students. The progress of the University is impressive both academically and financially. The accomplishments speak highly of the leadership of Dr. Papatheofanis and his ability to lead USK forward. Based on staff's review USK appears to be financially capable of maintaining and operating a new facility on the University and Innovation District property but lacks the financial resources to build the facility. However, based on their track record of being able to secure approximately \$9 million in private donations, over seven years, it is staff's recommendation to extend the ENA for an additional ninety days and negotiate an option to lease agreement for a 10-acre parcel on the University and Innovation District property. The option to lease will allow the USK an appropriate amount of time to conduct a capital fundraising campaign to build the University. If at the end of the option to lease USK has been unable to secure funds adequate to construct their initial facility then the option to lease would expire.