

# Agenda Report

TO: Mayor and City Council October 20, 2003

FROM: City Manager

SUBJECT: HOLD A PUBLIC HEARING AND APPROVE THE CALIFORNIA PUBLIC APPROVAL CERTIFICATE FOR FULLER SEMINARY

## **RECOMMENDATION**

It is recommended that the City Council hold a Public Hearing and approve the attached California Public Approval Certificate for Fuller Seminary.

## **BACKGROUND**

Fuller Theological Seminary (Fuller) is a charitable institution that has a 501(C)(3) determination letter from the Internal Revenue Service which allows it to qualify for tax exempt financing. Fuller desires to issue \$34.565 million in tax exempt bonds to construct approximately 180 units of apartment style student housing and a related structured parking facility on its Pasadena campus to be occupied by Fuller students and other authorized persons.

Fuller is an independent, coeducational, multi-denominational, evangelical Christian seminary. It is the largest seminary in the United States, with a mission to train Christian leaders from across the world for service in many fields. Fuller provides students with a university-style education in its Schools of Theology, World Mission, and Psychology. Fuller was founded in 1947 and today is among the nation's premier religious graduate institutions. The resident faculty of Fuller consists of over 70 professors and many more adjunct and visiting professors.

The seminary has more than 4,300 students from over 67 countries and over 108 denominations. Fuller remains on the front lines of evangelical thought, while committed to evangelism and mission that is grounded in scholarship. Fuller's enrollment is stable at 920 to 1,020 students per year. Students are not required to subscribe to the Statement of Faith and are free to learn and to take reasoned exception to the data or views offered in the Fuller community.

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In 1973, Fuller Seminary opened extension centers outside of Pasadena for the training of lay persons in the context of the local church. By the fall of 1979, extension programs were operating in six cities in the western United States, with the M.A. in theology available through the Seattle, San Francisco Bay Area and Southern California Extensions. In the 1998-99 academic year, Fuller enrolled over 1,000 students in its Southern California, Northern California, Northwest, Southwest, and Colorado Extended Education areas. The seminary broke new ground in theological education in 1992 with the development of a new model for the Master of Divinity degree that allows selected students to complete the entire degree in Seattle. This program, approved by the Association for Theological Schools, is offered with the assistance of the Pacific Association for Theological Studies, a partnership of Fuller Seminary, Regent College, Seattle Pacific University, and a number of Pacific Northwest churches.

Fuller also has an extension in Colorado that dates back to 1962 when Fuller and Young Life, a parachurch outreach ministry to adolescents located in Colorado Springs, entered into an informal training partnership. In 1977, that partnership became the Institute of Youth Ministries (IYM), the first fully accredited partnership of its kind between a seminary and a parachurch organization. For three decades the centerpiece of the IYM was the "Summer Institute" held each year in Colorado Springs. In 1995, Fuller Colorado expanded to become a "full service" Extension site offering several degree programs and year-round courses for our local student body as well. In September 2000, the Colorado Commission on Higher Education reconfirmed Fuller Theological Seminary in Colorado's authorization to operate in Colorado in the category of Seminary or Bible College.

### **STRUCTURE OF TRANSACTION**

Tax exempt financing requires that the bonds be issued by a governmental entity, even though the responsibility for repaying the bonds lies solely with Fuller. Fuller is a sectarian institution and does not qualify for tax exempt financing under the California statutes for such bonds. The State of Colorado, however, does allow sectarian borrowers to be financed by such bonds. Colorado also allows its bonds to be issued for projects outside of Colorado, if (1) the borrower owns or finances facilities in Colorado and (2) the financing benefits Colorado. Fuller has a facility in Colorado Springs Colorado. Fuller has applied for an issuance of Colorado bonds on the grounds that tax exempt bonds are a cheaper form of finance which will enhance Fuller's economic position and will make its facilities more viable, wherever they are located. On this basis, Colorado is expected to approve the financing and issue the bonds. The tax code requires that a TEFRA hearing be issued in the state where the bonds are issued and also in the state where the project is located, if different. Colorado will held a TEFRA hearing October 6. Pasadena also is required to hold such a hearing if the bonds are to be issued. Pasadena will have no obligation of any kind to make any payment with respect to the bonds.

## **DESCRIPTION OF PROJECT TO BE FINANCED**

### **Existing Housing**

The Seminary currently owns 438 residential apartment units in Pasadena. Of these units, 320 are located on campus or within two blocks of campus; 69 units are located three to six blocks from campus; and the remaining 49 housing units are located within 3.3 miles of campus. The existing housing is comprised of single and studio units and one-bedroom, two-bedroom, and three-bedroom apartments. Singles range in price from \$470-\$520, studios range from \$510-\$850, one-bedroom apartments from \$500-\$900, two-bedrooms from \$850-\$1,150, and three-bedrooms from \$1030-\$1,260.

### **The Project**

The proposed Project will demolish 42 old units and replace them with the construction of 180 new apartments to be completed in June 2005. The apartments will have one-bedroom, two-bedroom, and four-bedroom units. The new units will be garden-style with courtyards and green space, safe and pleasant play areas for children, the most up to date technology access, and indoor and outdoor common areas. This will be followed by another 1 to 2 phases which will ultimately result in the whole residential "north campus" being redeveloped into a unified and cohesive living community. The housing complex will not be used for academic or religious purposes.

Resident parking will also be constructed. None of the housing or parking facilities will be available for commercial or religious use, or to persons not associated with the Seminary.

Pasadena's high cost of living is prohibitive for many students who wish to live close to campus. Seminary-owned housing is the only opportunity for affordable housing in close proximity. There is presently a much greater demand than supply for affordable housing. Rents for the new Project will be priced high enough to achieve desired debt service coverage but still at a discounted price from comparable off-campus properties. Citywide rental averages for Pasadena are substantially higher than Fuller-owned properties. The averages for a one-bedroom, two-bedroom and three-bedroom units are \$866, \$1208 and \$1360, respectively. Current debt service pro formas reflect Fuller rents on the new housing approximately 25% lower than market rents.

Overall, Fuller will benefit substantially from a tax-exempt bond offering. The two primary conduit issuers in California, the California Statewide Community Development Authority and the California Educational Facilities Authority are prohibited from issuing tax-exempt bonds for institutions considered to be "pervasively sectarian." A tax-exempt bond issue allows Fuller to charge rents approximately \$200 per month per bed lower than a taxable bond issue, a savings of over 20% to Fuller students. Housing so far below market rents leaves more cushion for Seminary to be able increase revenues if necessary and also preserves Fullers reputation as an institution that works to ensure an affordable high quality education for its students. The total debt service on par for a tax-exempt bond issue is estimated to be \$56,252,233 compared to \$68,993,450 for a taxable bond issue.

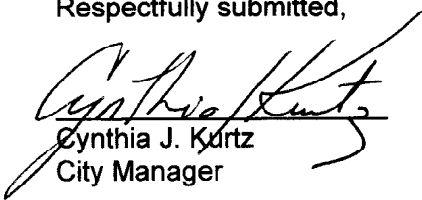
**REQUIRED PUBLIC HEARING**

As previously mentioned, in order for Fuller to have access to tax exempt financing, the Internal Revenue Code requires that a public hearing be held concerning the proposed financing. This is a unique transaction since Fuller will be issuing the bonds under Colorado state law while using the proceeds in Pasadena. The required hearing must be preceded by notice published at least 14 days in advance of the hearing. Notice of the proposed hearing was published on October 6, 2003.

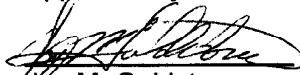
**FISCAL IMPACT**

The proposed transaction calls for the issuance of \$34,565,000 in tax exempt bonds. The City will not be directly or contingently obligated in any manner by the proposed financing, and the City will not be a party to the financing documents. Only Fuller Seminary will be a party to the financing documents, and any and all liability will be limited to payments made by Fuller for the purpose of paying debt service.

Respectfully submitted,

  
Cynthia J. Kurtz  
City Manager

Approved by:

  
Jay M. Goldstone  
Director of Finance