

FD-302 (Rev. 11-17-58)

UNITED STATES DEPARTMENT OF STATE

535116-①
535-116
535-1-031

SUBJECT: THE NEW 1957-1958 UNIVERSITY OF SANTA MARIA
IN MEXICO

Summary

Project loan authorization and agreement should be amended to provide for a reduction in the amount of the loan from \$1.3 million to \$1 million. This can be accomplished by reducing down the scope of the project from the four buildings originally planned, to a single multi-story building containing the essential facilities for an acceptable academic program. Such a reduction would not seriously affect the achievement of project goals.

Introduction

The University of Santa Maria la Antigua (USMA) has conceived this project as the first phase of a long term comprehensive development program. The program, when eventually completed, will consist of 19 buildings with 12,000 square meters of floor area, and will accommodate an enrollment of 2,500 full time student students.

Under the initial phase, a USAID loan of \$1.3 million for the construction of four buildings on a new 725 acre campus was extended to USMA on May 23, 1959. This loan was intended to assist USMA to construct a general classroom building, Science building,

Administration building, and a student center. Loan funds were to be used for the associated dollar and local costs of goods and services to assist in financing the cost of site development, construction, furnishings and equipment, and A & E technical services. In addition, the loan provided for the cost of consultant services on higher education and business management. As their counterpart to the loan, the USMA was to invest \$940,000 of which \$575,000 was to be in the form of cash or materials. The following table shows the original financial plan for the University:

<u>ITEM</u>	<u>COST</u>	<u>LOAN</u>	<u>USMA</u>	<u>REMARKS</u>
Technical Assist.	90,000	90,000		
Land	340,000	-	340,000	
Site Development	100,000	75,000	25,000	- Building Construction also includes
Bldg. Construction	1,075,000	500,000	575,000	- some site development
A&E Services	170,000	170,000	-	
Furn. and Equip.	315,000	315,000	-	
Contingencies	<u>150,000</u>	<u>150,000</u>	<u>-</u>	
	\$2,240,000	1,300,000	940,000	

Subsequent to signing the loan, the A & E firms of Daniel, Mann, Johnson and Mendenhall, and Cañenas and Lyons were retained at a cost of \$190,000, to prepare construction

plans and specifications for the initial building program. This work has been completed and accepted by USMA and USAID. Technical assistance, costing \$67,000, has also been provided under the loan by the Southwest Alliance for Latin America (SALA) for the academic improvement of USMA, and preliminary site development costing \$25,000, has been completed. Thus, total expenditure under the loan to date has amounted to \$282,000.

As a condition precedent to actual construction, the University was to provide a cash counterpart of \$575,000. However, because the University was not able to provide this fund in full, USAID gave notification of termination of the loan on April 18, 1972. The notice contained a provision that if, at some future date, the University could demonstrate its ability to overcome its recurrent operating deficits, raise sufficient liquid capital to meet its part of a construction program, and ~~and~~ demonstrate that the expanded facilities were economically viable, USAID would be glad to consider a new application for a loan.

Since that time, USMA has reevaluated ^{its} ~~their~~ financial situation, has made some necessary administrative and organization changes, and has improved the quality of its

leadership. In June 1972, the University requested that the termination be held in abeyance, and that consideration be given to a revision of the project, in order that its purposes could be achieved, albeit on a smaller scale.

In its modified proposal, the technical assistance component of the original loan has remained ^{essentially} the same. USMA has reduced the scope of the project by postponing construction of facilities that are considered ~~non~~^{less}-essential in maintaining an acceptable academic program. Construction of the student center has been deferred, ^{and a} single all purpose building is planned for construction to provide presently needed administrative, classroom, and laboratory space. The reduction in scope will sacrifice what would at present be excess capacity. Additional buildings can be built later as the need arises, using plans already developed under the original loan.

The construction and related costs of the proposed facility to be financed under this modified loan are tabulated below:

<u>ITEM</u>	<u>COST</u>	<u>LOAN</u>	<u>USMA</u>
Technical Assistance	85,000	85,000	85,000
Land	271,000	-	91,000 ^{271,000}
Site Development	167,000	76,000	211,000 ^{91,000}

<u>ITEM</u>	<u>COST</u>	<u>LOAN</u>	<u>USMA</u>
Building Construction	551,000	340,000	211,000
A/E Services	239,000	239,000	-
Furniture & Equipment	237,000	174,000	63,000
Contingencies	<u>86,000</u>	<u>86,000</u>	<u>-</u>
	\$1,636,000	\$1,000,000	\$636,000

This modified proposal will necessitate further loan disbursements of ^{ONLY} \$743,000, because \$190,000 for A/E services and \$67,000 for SALA assistance have already been expended under the original loan. The revised loan proposal ^{CONTAINS} ~~includes~~ a USMA counterpart of \$636,000, which includes \$271,000 for land now owned by the University, \$25,000 for preliminary site development already performed, and an additional \$340,000 in cash or materials. [↑] Because USMA's failure to raise the original counterpart caused AID. to give notification of termination of the original loan, the University's ability to raise sufficient cash under the proposed revision (\$340,000) is, therefore, a matter of special concern. Presented below is a revised table indicating USMA's primary and secondary resources available for this project. The table is based on the latest reports from the University regarding its current financial condition.

^{CASH} <u>USMA's Contribution to Project</u> <u>Primary Resources</u>	<u>\$340,000</u>
Cash Balances in Construction Fund - 11/30/72	102,000
German Bishops cash pledge	50,000
Firm Material Pledges	<u>132,000</u>
Totals:	\$284,000
<u>Supplementary Resources</u>	
Banco National Line of Credit (5 yrs. 8%)	\$300,000

The cash balances in the construction fund are pledged against a bank overdraft of \$92,000. The University plans to draw down approximately \$200,000 of the Banco National line of credit to finance repayment of the bank overdraft, (thus releasing funds in the construction account)⁽¹⁾ to repay a short term loan⁽²⁾ (\$49,000), and to provide the portion of the counterpart requirement⁽³⁾ of \$340,000 (\$56,000) not covered by the primary resources available to the USMA. In the unlikely event that material pledges are not forthcoming, USMA has a cushion of \$100,000 from the Banco National line of credit which could be used to cover the difference. When the original loan was signed, USMA planned to raise their contribution through increased cash donations and bond sales. When sufficient funds did not materialize, USAID was forced to suspend loan

disbursements. However, the USAID does not expect a similar occurrence in this instance, as all primary and secondary resources available to USMA are firm.

The effect of this modification will allow commencement of USMA's long range construction program, although the scope of its first phase has been reduced. However, the original goals of the program have not been affected. USMA now plans to expand their educational facilities by constructing additional units as the need for them arises and as the University has the financial resources to pay for them. As originally conceived, the four buildings would have been sufficient to accommodate over 1,800 students, an enrollment target now not expected to be reached until 1985. The new modified proposal, if carried out, will provide capacity for enrollment in excess of 1,000 students. This will be adequate until 1977, at which time it will be necessary to expand facilities to meet the demands of an expanding student body.

USMA has programmed a three phase building construction program to be performed at five year intervals beginning in 1977 ~~and~~ utilizing ^{ITS} ~~their~~ own funds and commercial credit. This will be possible because the University is projected

to be in a more viable position at the end of 1976^e both from a financial and a student enrollment standpoint. Student enrollment in 1976 is estimated at over 23,000 credit hours, which when coupled with a proposed tuition increase ^{of} to \$18 a credit hour ~~in 1975~~, will enable the University to reach an operational break even point by the end of 1975. This expansion in credit hours, and increase in tuition cannot be achieved in the present *surrounded* facilities.

Debt servicing will consist of amortization of a loan for land purchase, the AID loan, and interest expense on bonds. Additional annual debt servicing capacity for the years subsequent to 1976 is calculated at \$112,000 based on 1976 cash projections and a projected \$2 credit ~~hour~~ increase in tuition in 1977. Commercial financing of the Science Building in 1978, and additional buildings ^{at} ~~over~~ five year ^{intervals} ~~periods~~ is possible based on these financial **resources**. Additional resources that could be made available consist of increased revenues through expanded enrollment in the years subsequent to 1976 and increased annual cash and material donations, currently estimated at \$79,000. This amount appears to be conservative when compared to the \$284,000 raised for the proposed first building.

The project and the University now appear to be financially viable. Since 1965, the University has been seriously hampered by lack of operating capital, which forced USMA to utilize donations to cover operating deficits. A calculation of the fixed cost and variable cost rate components of USMA's total operating costs has determined that 23,000 credit hours of instruction^(APPROXIMATELY 850 STUDENTS) with a tuition of \$18 a credit hour will be necessary to reach the operational break even point. The present facilities, with severe space limitations, allow for a student enrollment not in excess of 600. This, plus the reluctance of USMA to increase tuition without a new building, has prevented the University from overcoming its large operating deficits. However, with a tuition increase to be effected simultaneously with announcement of construction, and increased enrollment made possible by the new building, USMA will be able to reach the operational break even point by 1975. This will allow USMA to reserve the major part of its cash donations, material pledges, and bond receipts for capital expenditures.

Although their budget and cash projections are tight, we believe that the University can continue to exist as a viable institution, and at the same time undertake the financial load resulting from construction

of the new campus. Furthermore, in order to improve financial management, the University will employ a capable business manager, whose salary will be payable for 18 months under the loan, to insure proper implementation of the financial plan.

The GOP is cognizant of the need for another University to augment and complement the University of Panama. In a recent national speech, General Torrijos has stated that the government could not continue to support education at the same levels as in the past, and that alternatives were needed. For this reason, the GOP has supported USMA's plans for expansion. It has provided 13 hectares for the new campus, extended a \$300,000 Banco National line of credit, and it has also guaranteed the AID loan. In addition, the National Light and Power Company has entered into a right of way agreement with USMA which will provide the University with useful income for the next few years. These actions indicate the GOP's current desire to have a viable private University which can offer an alternative to the University of Panama, and we expect similar support for future expansion plans of the USMA. The Embassy/^{also}concurs with this judgment.

The question of need, both educationally and politically, for the University was answered in 1969; and remains valid.

The original goals of this loan, ~~which~~ were to assist in a long range development program to create an expanded university with an improved curriculum and high teaching standards, and to provide an alternative to the University of Panama to help meet the growing social, political, and economic demands for more and better trained technical and professional personnel in Panama, *These goals* have ~~also~~ remained constant; although they will now take longer to accomplish given USMA's financial constraints. However, this modified loan proposal offers an acceptable, rational approach to achieving USMA's goals without sacrificing the pursuit of academic excellence and fiscal responsibility.

In order to ensure the successfully completion of this modified project, as well as to ensure USMA's financial viability, certain actions would be required of the Mission and AID/W. We recommend the following steps:

A. Actions by USAID

1. Issue an implementation letter extending the terminal date for meeting conditions precedent in Section 303 for an additional period of four to six months, depending on the date of approval.

2. Amend the project description contained in Annex 1 of the loan agreement to conform to the revised project.

3. Add as a condition precedent to construction that the Borrower increase tuition to a level determined necessary by USAID^{AND USMA} to insure financial viability.

B. Action Requested by AID/W

1. Amend the loan authorization to:

a. reduce the amount of the loan from NTE \$1,300,000 to NTE \$1,000,000.

b. reduce the number of buildings to be constructed for the new campus from four to one.

2. Delegate authority to amend the loan agreement to:

a. reduce the amount of the loan in Section 1.01 from NTE \$1,300,000 to NTE \$1,000,000.

b. change the description of the project in Section 1.02 from four buildings to one building.

c. reduce the amount of the Borrower's cash contribution specified in Section 3.02(d) from \$575,000 to \$340,000.

d. amend the covenant contained in Section 4.64 by adding a specific provision that Borrower will maintain in its employment a competent business manager, acceptable to USAID, and a project director, both of whom shall be full participating members of the Borrower's governing board of directors.

e. provide an additional covenant, Section 4.13, that the Borrower will in good faith, make every effort to implement the SALA recommendations and to confer with USAID regarding any recommendations it does not believe feasible to put into effect. Provide also for an in depth evaluation to be conducted by a competent technical consultant, acceptable to USAID, one year subsequent to signing the Loan Agreement. Provide for a formal loan review, attended by both USAID and USMA officials upon completion of evaluation ^{by} ~~of~~ technical consultant.

RECOMMENDATION

That you execute the attached amended loan authorization and delegation of authority which will allow the Director of the USAID Mission to Panama to negotiate and effect those changes in the loan agreement necessary to permit USMA to proceed with their revised construction program.