CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM

EXECUTIVE SUMMARY

Applicant:	Claremont McKenna College ("CMC") 500 East 9th Street Claremont, CA 91711 Los Angeles County	**Amount Requested:**	$30,000,000
		Date Requested:	October 25, 2012
		Resolution Number:	292
Facility Type:	Private College		
New Project Site:	Claremont, CA		
Accreditation:	Western Association of Schools and Colleges		

Use of Proceeds: Bond proceeds will be used to finance the acquisition, construction, expansion, replacement, renovation, improvement and/or equipping of certain new and existing education facilities of the CMC. Proceeds will also be used to refund all or a portion of the CEFA Series 2003 bonds for a net present value savings of approximately $742,000, or 9.3% over the life of the bonds.

Type of Issue: Negotiated public offering, fixed rate, $5,000 minimum denominations.
Credit Enhancement: None
Expected Credit Rating: Aa2 (Moody's)
Financing Team: *Please see Exhibit 1 to identify possible conflicts of interest*

Environmental Benefits: CMC will design, build, and pursue certification of all new buildings at a LEED 'Silver' level or higher. Significant building renovation projects will also apply LEED standards throughout the course of the project. Similarly, CMC will apply principles of sustainability and related best practices in its daily maintenance and operation. The new/additional construction of this issuance is anticipated to follow these standards.

Financial Overview: CMC's consistent growth in reliable revenue sources such as student revenues and gifts continue to effectively support campus operating costs. CMC appears to maintain sound financial strength supported by strong financial resources, continued solid liquidity, and well managed debt service coverage.

Estimated Sources of Funds:		**Financing Cost**	
Par Amount of Bond	$30,000,000	Project Fund	$25,103,184
Original Issue Premium	3,824,806	Refunding	8,153,309
Equity Contribution	48,497	Financing Cost	616,810
Total Sources	$33,873,303	Total Uses	$33,873,303

Legal Status Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends the Authority approve Resolution No. 292 in an amount not to exceed $30,000,000 for Claremont McKenna College subject to a bond rating of at least investment grade by a nationally recognized rating agency. Macias Gini & O'Connell, LLP, the Authority's financial analyst, and Public Financial Management, the Authority's financial advisor, concur with the Authority's staff recommendations.

STAFF SUMMARY AND RECOMMENDATION

Claremont McKenna College ("CMC")
October 25, 2012
Resolution Number: 292

I. PURPOSE OF FINANCING: CMC is seeking to refund all or a portion of the Series 2003 CEFA bonds for a net present value savings of approximately $742,000 or 9.3% over the life of the bonds under existing market conditions and to finance the cost of the acquisition, construction, and improvements of several education facilities of CMC.

Project Fund..**$25,103,184**

CMC is addressing the need to construct additions to and renovate multiple buildings on campus that have not been improved since the early 1960's. Approval of CMC's Master Plan by the City of Claremont in 2012 will commence with Phase I and II of these renovations, which involve improving Phillips Hall, Beckett Hall, Benson Hall, Marks Hall, and Berger Hall. These renovations include upgrading to ADA standards, installing air conditioning, and reconfiguring all restrooms. Additionally, the project fund will support the replacement of an existing 60 year old building (Ducey Gymnasium) through construction of a new fitness and athletic center in its place.

<u>Environmental Benefits:</u>

CMC will design, build, and pursue certification of all new buildings at a LEED 'Silver' level or higher. Significant building renovation projects will also apply LEED standards throughout the course of the project. Similarly, CMC will apply principles of sustainability and related best practices in its daily maintenance and operation. The new/additional construction of this issuance is anticipated to follow these standards.

Refunding...**8,153,309**

CMC plans to refund all or a portion of the CEFA Series 2003 bonds. The outstanding balance of approximately $8,000,000 was originally approved by the CEFA board in December 2003 in the amount of $9,975,000. The 2003 bonds were issued to finance the acquisition, construction, and renovation of multiple facilities of CMC. The refunding will save CMC over $700,000 over the life of the bonds.

Financing Costs...**<u>616,810</u>**

Cost of Issuance	$308,216
Underwriter's Discount	<u>324,274</u>

TOTAL USES OF FUNDS .... **<u>$33,873,303</u>**

II. PROPOSED COVENANTS, SECURITY AND DISCLOSURES:

Executive summary and recommendations include minimum requirements. Additional or more stringent covenants or disclosures may be added following consultation with Authority staff but without further notification to the Authority's Board. These covenants cannot be diluted or removed without subsequent review. If there are modifications to the covenant proposal following the preparation of this executive summary, staff will report it at the meeting.

After reviewing CMC's credit profile, including its current financial profile, prior bond transactions and considering what the market will support, the financing team has concluded that the covenants listed below align the interests of CMC, the Authority, and the investors and therefore are appropriate to this transaction. The financing team notes that these covenants contain necessary tax and legal covenants that are consistent with those that have applied to CMC's prior bond transactions and CMC's current financial situation does not suggest that additional covenants should be required.

- ✓ **Unconditional Promise to Pay.** *Borrower agrees to pay Trustee all amounts required for principal and interest and other payments and expenses designated in the Loan Agreement. All Revenues[1] and any other amounts held in a designated fund or account under the Bond Indenture are pledged to secure the full payment of the bonds.*

- ✓ **Comply with SEC Rule 15c2-12.** *The rule prohibits underwriters from underwriting municipal bond deals unless the issuer or borrower contractually agrees to disclose designated financial and operating information to the marketplace during the life of the bonds and to report designated events such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc.*

Staff has reviewed the entirety of this financing package and finds it to be acceptable.

[1] Capitalized terms are defined in the Indenture.

III. FINANCIAL ANALYSIS:

Claremont McKenna College

Statement of Activities

Unrestricted ($000s)

	Fiscal Year Ended June 30, 2012	2011	2010
Operating activities:			
Revenues:			
Net student revenues	$ 51,284	$ 46,363	$ 43,413
Private gifts & grants	3,768	3,966	3,845
Federal grants	1,047	1,477	1,695
Private contracts	875	667	644
Spending policy income	7,434	7,294	6,926
Other investment income	1,490	2,081	2,349
Other revenues	2,351	2,252	2,081
Release of net assets:			
Restricted gifts	14,688	12,419	11,116
Restricted spending policy income	17,475	16,234	15,868
Annuity & life income	777	617	491
Total revenues	101,189	93,370	88,428
Expenses:			
Instruction	$ 32,461	$ 28,992	$ 26,658
Research	6,585	5,504	5,753
Academic support	9,722	7,299	7,527
Student services	14,146	12,567	11,945
Institutional support	15,457	13,937	14,343
Auxiliary enterprises	15,695	14,487	13,916
Total expenses	94,066	82,786	80,142
Increase in net assets from operating activities	7,123	10,584	8,286
Other changes in net assets:			
Realized & unrealized gains (losses), net of spending allocation	(12,973)	28,610	20,714
Release of net assets, plant facilities	3,291	244	165
Staff retirement plan comprehensive gain / (loss)	(968)	729	(552)
Donor redesignations between net asset categories	65	171	(16)
Change in unrestricted net assets	(3,462)	40,338	28,597
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	179,141	138,803	110,206
UNRESTRICTED NET ASSETS, END OF YEAR	$ 175,679	$ 179,141	$ 138,803

Claremont McKenna College
Statement of Financial Position ($000s)

	As of June 30, 2012	2011	2010
ASSETS:			
Cash	$ 407	$ 587	$ 630
Accounts & notes receivable	17,050	17,070	17,794
Preapid expenses & deposits	4,641	4,564	3,952
Contributions receivable	208,529	165,748	163,095
Beneficial interest in trusts	5,752	5,251	4,763
Investments	622,632	648,323	594,087
Plant facilities	178,484	174,986	137,045
Total assets	$ 1,037,495	$ 1,016,529	$ 921,366
LIABILITIES AND NET ASSETS:			
Accounts payable and accrued liabilities	11,688	$ 14,494	15,399
Funds held in trust for others	2,796	2,809	2,360
Deposits and deferred revenues	1,041	1,215	1,321
Staff retirement liability	2,128	1,412	2,010
Life income & annuities payable	42,316	41,420	40,959
Capital lease obligation	1,228	941	-
Bonds payable	137,567	138,412	139,422
Government advances for student loans	3,217	3,207	3,208
Asset retirement obligation	816	785	755
Total liabilities	202,797	204,695	205,434
Net assets:			
Unrestricted	175,679	179,141	138,803
Temporarily restricted	382,214	366,117	321,119
Permanently restricted	276,805	266,576	256,010
TOTAL NET ASSETS	834,698	811,834	715,932
TOTAL LIABILITIES AND NET ASSETS	$ 1,037,495	$ 1,016,529	$ 921,366

Financial Ratios

	Proforma FYE 6/30/12 (a)	2012	2011	2010
Debt service coverage (x)	2.07	2.59	2.50	2.51
Debt to expendable net assets (x)	0.29	0.25	0.26	0.30
Expendable net assets to operations (x)		5.93	6.59	5.74
Margin		7%	11%	9%

(a) Recalculates 2012 results to include the impact of this proposed financing.

<u>Financial Discussion:</u>

CMC's consistent growth in reliable revenue sources such as student revenues and gifts continues to effectively support campus operating costs.

CMC exhibited moderate operating growth over the review period. In FY 2012 total unrestricted revenues were $101.2 million, a 14% increase from $88.4 million in FY 2010. Key factors accounting for this revenue growth include the consistent growth of net student revenues and increased gifts released from restricted status.

Net student revenue represents 51% of CMC's total revenue base, providing CMC with liquidity and flexibility. Net student revenue has grown an average of 9% over the past three years, reflecting continued strong enrollment demand, and equaled $51.3 million in FY 2012, up 18% from $43.4 million in FY 2010.

Total operating expenses increased in FY 2012 by 17% from FY 2010. According to CMC, these expenses were driven primarily by increases in instructional expenses related to the expansion of CMC's summer session, the continued growth of the Robert Day Masters's program in finance, newly endowed professorships, and the launching of several global education initiatives including the establishment of a new Center for Global Education. CMC has averaged a 9% increase in net assets from operating activities over the three year review period.

CMC experienced an unrestricted non-operating loss of $12.9 million in FY 2012. This loss followed two consecutive years of unrestricted non-operating gains of $20.7 million and $28.6 million in FY 2010 and FY 2011, respectively. These fluctuations are comprised primarily of realized and unrealized investment gains and losses, net of CMC's investment income spending allocation, and the unrealized losses on investments can be attributed to market value fluctuations.

CMC's appears to maintain sound financial strength supported by strong financial resources and continued solid liquidity.

The balance sheet reflects an increase in contributions and net assets since FY 2010. Unrestricted net assets have increased over the review period by 27% since FY 2010, despite flattening over the past year due to lower than expected endowment returns and campus prioritization of donor-restricted strategic initiatives fundraising (called the Campaign for CMC, due to conclude in FY 2013), according to CMC. Plant facilities continue to increase (30% over the review period) due to the construction in progress of several projects throughout CMC.

CMC continues to meet its long term debt obligations, with bonds payable declining by 2% since FY 2010. Debt service coverage for CMC in FY 2012 appears solid with a debt service coverage ratio of 2.59x. Including the proposed bond financing, CMC's proforma debt service coverage appears to remain solid at 2.07x.

IV. BACKGROUND:

General:

CMC is a non-profit, privately endowed, coeducational liberal arts college with an emphasis on economics, government, and international relations. Enrollment for the 2012-2013 academic year is approximately 1,295 full-time equivalent students, 1,265 of whom are undergraduate and 31 graduate students. CMC was founded in 1946 as Claremont Men's College, became coeducational in 1976, and was renamed in 1981 in honor of founding trustee Donald C. McKenna.

CMC's mission is to educate its students for thoughtful and productive lives and responsible leadership in business, government, and the professions, and to support faculty and student scholarship that contribute to intellectual vitality and the understanding of public policy issues. A focused mission, prominent faculty, the Marian Miner Cook Athenaeum speaker series, semester internship programs in Washington D.C. and the Silicon Valley, summer student internship programs, the Children's School at Claremont McKenna College, and ten on-campus research institutes are a few of the many distinguishing features of the College. The primary academic and residential campus consists of approximately 50 acres and 40 buildings.

CMC is a member of The Claremont Colleges, a consortium of five undergraduate colleges, two graduate schools, and a central coordinating institution, which share common resources that rival those at major universities. Modeled on the Oxford system in England, the consortium is located 35 miles east of Los Angeles at the foot of the San Gabriel Mountains.

Administration:

CMC is governed by a self-perpetuating Board of Trustees composed of not less than 25 and not more than 46 members. There are currently 41 trustees, including 36 regular trustees, three alumni trustees and two ex-officio trustees. Regular trustees are elected to renewable, three-year terms, and approximately one-third of the regular trustees are elected annually. Alumni trustees are elected to a single three-year term. The ex-officio trustees, who are the President of the Alumni Association and the President of the Parents Network, each serve a one-year term.

At the annual meeting, the Board of Trustees elects a Chair and one or more Vice Chairs to serve for one year. In addition to an Executive Committee, which acts for the Board between meetings, the Board has eight advisory committees which consist of: Academic Affairs, Audit, Board Affairs, Buildings and Grounds, College Advancement, Finance, Investment, and Student Affairs. The full Board of Trustees meets at least four times a year.

Accreditations and Affiliations:

CMC is accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges ("WASC"), the primary accrediting body for institutions of higher education in the Western United States. The most recent WASC full accreditation process was completed in July of 2012.

Academic Programs:

CMC offers a liberal arts curriculum with 33 separate majors in ten departments, including Joint Science. Interdisciplinary majors are available in a number of additional subjects through The Claremont Colleges consortium, as are options for independent study and combined-degree programs. Students may graduate with single, dual, double, or individualized majors. They may also elect to complete majors at any of the other undergraduate institutions within The Claremont Colleges.

V. OUTSTANDING DEBT ($000's):

Issue:	Original Amount	Amount Outstanding as of 6/30/2012	Amount Outstanding after Proposed Financing
Existing:			
CEFA Series 1999	$24,000	$1,290	$1,290
CEFA Series 2003	9,975	8,205	0
CEFA Series 2007	40,425	39,425	39,425
CEFA Series 2009	83,095	83,095	83,095
CEFA Series 2011	5,480	5,480	5,480
Proposed:			
CEFA, Series 2012			**30,000**
Total		$137,495	$159,290

VI. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Religious Affiliation Due Diligence
- Legal Status Review
- Section 94212(b) of the Education Code – Documentation reflecting compliance with California Environmental Quality Act
- Iran Contracting Act Certificate

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution No. 292 in an amount not to exceed $30,000,000 for Claremont McKenna College subject to a bond rating of at least investment grade by a nationally recognized rating agency. Macias Gini & O'Connell, LLP, the Authority's financial analyst, and Public Financial Management, the Authority's financial advisor, concur with the Authority's staff recommendations.

EXHIBIT 1

Financing Team
Claremont McKenna College

Borrower:	Claremont McKenna College
Agent for Sale:	State Treasurer's Office, Public Finance Division
Issuer's Counsel:	Attorney General's Office
Issuer's Financial Advisor:	Public Financial Management, Inc.
Bond Counsel:	Squire Sanders (US) LLP
Underwriter:	Prager & Co., LLC
Underwriter's Counsel:	Law Office of Rossi Russell
Borrower's Counsel:	Claremont McKenna College General Counsel
Borrower's Auditor:	Moss Adams
Trustee/Escrow Bank:	Union Bank, N.A.
Trustee Counsel:	Union Bank, N.A., Senior Counsel
Rating Agencies:	Moody's Investors Service
Verification Agent:	TBD
OS/Printer:	TBD