

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM
EXECUTIVE SUMMARY

Applicant:	Stanford University (the "University") Stanford, California Santa Clara County	Amount Requested:	\$700,000,000
		Date Requested:	April 26, 2007
		Requested Loan Term:	30 Years
Facility Type:	Private University	Resolution Number:	245
Accreditations:	Western Association of Schools and Colleges		
Use of Bond Proceeds: Proceeds will be used to finance and refinance capital expenditures and improvements within the University as part of its on-going capital plan. The proposed refunding portion of the financing anticipated for 2007 is expected to generate a net present value savings of approximately \$24.4 million or 11.7%.			
Type of Issue:	Negotiated public offering, fixed and variable interest rates		
Credit Enhancement:	None		
Expected Credit Rating:	Aaa/AAA/AAA (Moody's/S&P/Fitch; short-term ratings Aaa/VMIG1/P-1, AAA/A-1+, AAA/F1 (Moody's/S&P/Fitch)		
Senior Underwriters:	Morgan Stanley & Co. Incorporated, Goldman Sachs & Co., J.P. Morgan Securities Inc.		
Co-Underwriters:	Prager, Sealy & Co., LLC, and Sutter Securities Inc.		
Bond Counsel:	Orrick, Herrington & Sutcliffe		
Financial Overview: Stanford University has experienced substantial growth in its Total Net Assets over the past several years. The University's diverse income stream sufficiently supports operating expenses. The University's Financial Statements reflect strong liquidity and investment returns with solid operating results overall.			
Sources of University Revenues (\$000)- FYE 8-31-06:			
(Unrestricted Funds)			
		<u>Amount</u>	<u>Percent</u>
Sponsored research support		\$994,114	34.6%
Investment income		608,883	21.1%
Student income		376,161	13.1%
Special program fees and other income		318,490	11.1%
Health care services		316,274	11.0%
Current year gifts in support of operations		167,700	5.8%
Net assets released from restrictions		<u>94,101</u>	<u>3.3%</u>
Total University Revenues		<u>\$2,875,723</u>	<u>100%</u>
Estimated Sources of Funds (\$000):		Estimated Uses of Funds (\$000):	
Bond Par	\$700,000	Construction	\$125,000
		Refundings	545,035
		Original Issue Discount	22,663
		Financing Costs	<u>7,302</u>
Total Sources	<u>\$700,000</u>	Total Uses	<u>\$700,000</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a resolution in an amount not to exceed \$700,000,000 to issue tax exempt revenue bonds for Stanford University, subject to a bond rating of at least an "A" category (or equivalent short-term rating) by a nationally recognized rating agency and the standard bond issuance guidelines.			

STAFF SUMMARY AND RECOMMENDATION
BOND FINANCING PROGRAM

April 26, 2007

STANFORD UNIVERSITY (the “University”)

Resolution Number: 245

I. PURPOSE OF FINANCING: The University continues to progress with its significant multi-year Capital Program. This financing will refund approximately \$545 million of existing CEFA debt outstanding and include \$125 million of new money. The new money will be used for new construction projects and to pay down outstanding tax-exempt commercial paper, restoring capacity to this facility. The proposed refunding portion of the financing anticipated for 2007 is expected to generate a net present value savings of approximately \$24.4 million or 11.7%.

Uses of Funds:

Overview

The University will use the proceeds to finance or refinance a variety of capital improvement projects including:

- Constructing and renovating residential facilities for undergraduate, graduate, and post-doctoral students and fellows
- Constructing and renovating new and existing academic and research facilities
- Expanding, replacing, and upgrading campus water, steam, chilled water and electrical utilities, parking structures, transportation equipment, roadways, safety systems and other infrastructure facilities
- Constructing and expanding communications systems, networks and systems applications

Details

\$125 million will pay down outstanding Tax-Exempt Commercial Paper of approximately \$60 million and finance \$65 million in additional projects such as:

- Munger Graduate Residences and Underground Garage
- Science, Engineering and Medical Campus (SEMC) Buildings
- Roble Hall Renovation and Seismic Upgrade
- Backup/storage computer system improvements and replacements
- Escondido Village Slab Heating projects

\$182.9 million will advance refund CEFA Series N bonds, which financed such projects as:

- Escondido Village Graduate Student Housing – Phase 1
- Toyon Renovations and Seismic Upgrade
- Green Library West Seismic Repairs
- McCullough Annex (Science Engineering Quad)
- Center for Clinical Sciences Research

\$29 million will advance refund CEFA Series M bonds, which financed such projects as:

- Residence Halls
- North West Campus Parking Structure Two
- Research Animal Facility Phase I
- Building 120 Reconstruction
- Medical Center Utilities Projects

\$333.2 million will refund CEFA Series P, Q & R bonds, which financed such projects as:

- Chemistry/Biology Building
- Building 160 Seismic Upgrades
- Stanford West Apartments
- New Mechanical Engineering Building
- Cooling Tower #4

Allocation of Funds

New Construction (new money).....	\$65,000,000
Pay down Tax-Exempt Commercial Paper (new money)	60,000,000
Refund CEFA Series N.....	182,866,000
Refund CEFA Series M.....	29,001,000
Refund CEFA Series P, Q & R.....	333,168,000
Net Original Issue Discounts.....	22,663,000
Financing costs	<u>7,302,000</u>
Total Uses of Funds.....	<u>\$700,000,000</u>

Financing Structure:

- Negotiated public offering
- Three series: T-1, T-2, T-3 – multi-modal documentation allowing for traditional fixed rate or variable rate structures
- CEFA Series P, Q, & R bonds refunding structure TBD at a later date
- Expected Aaa/AAA/AAA Moody’s/S&P/Fitch) ratings, short-term ratings Aaa/VMIG1/P-1, AAA/A-1+, AAA/F1 (Moody’s/S&P/Fitch)

II. FINANCIAL STATEMENTS AND ANALYSIS:

STANFORD UNIVERSITY Statement of Activities Unrestricted (000's)

	Fiscal Year Ended August 31,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues:			
Student Income	\$ 376,161	\$ 355,919	\$ 332,390
Sponsored research support	994,114	973,379	923,508
Health Care Services	316,274	266,914	229,951
Current year gifts in support of operations	167,700	144,331	105,222
Net assets released from restrictions	94,101	82,458	46,232
Investment Income	608,883	514,274	477,230
Other income	318,490	291,491	258,768
Total revenues	<u>2,875,723</u>	<u>2,628,766</u>	<u>2,373,301</u>
Expenses:			
Salaries and benefits	1,636,697	1,468,663	1,428,619
Depreciation	198,005	191,593	197,134
Other operating expenses	900,284	838,549	740,141
Total expenses	<u>2,734,986</u>	<u>2,498,805</u>	<u>2,365,894</u>
Excess of revenues over expenses	140,737	129,961	7,407
Other changes in unrestricted net assets	1,760,603	2,027,416	1,196,124
Net change in unrestricted net assets	<u>1,901,340</u>	<u>2,157,377</u>	<u>1,203,531</u>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>11,547,450</u>	<u>9,390,073</u>	<u>8,186,542</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 13,448,790</u>	<u>\$ 11,547,450</u>	<u>\$ 9,390,073</u>

STANFORD UNIVERSITY
Statement of Financial Position (000's)

	As of August 31,		
	2006	2005	2004
ASSETS:			
Cash and cash equivalents	\$ 459,871	\$ 434,498	\$ 404,068
Accounts receivable	257,015	191,238	185,821
Receivables (payables) from SHC and LPCH, net	41,704	61,692	31,909
Inventories, prepaid expenses	34,173	54,000	33,344
Pledges receivable	583,171	472,861	411,366
Student loans receivable	63,374	63,148	61,952
Other loans receivable (principally faculty mortgages)	297,956	268,928	253,498
Investments at fair value	17,524,666	15,131,630	12,355,650
Plant facilities, net of accumulated depreciation	2,546,480	2,353,718	2,344,984
TOTAL ASSETS	\$ 21,808,410	\$ 19,031,713	\$ 16,082,592
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable and accrued expenses	\$ 570,128	\$ 500,930	\$ 484,728
Pending trades	105,796	183,870	91,893
Liabilities under security agreements	658,196	631,955	431,652
Deferred rental income	367,565	362,164	370,440
Income beneficiary share of living trust investments	344,921	301,896	281,498
Notes and bonds payable	1,308,562	1,266,439	1,288,242
U.S. Government refundable loan funds	52,394	54,005	53,527
TOTAL LIABILITIES	3,407,562	3,301,259	3,001,980
Net assets:			
Unrestricted	13,448,790	11,547,450	9,390,073
Temporarily Restricted	1,001,137	559,863	473,807
Permanently Restricted	3,950,921	3,623,141	3,216,732
TOTAL NET ASSETS	18,400,848	15,730,454	13,080,612
TOTAL LIABILITIES AND NET ASSETS	\$ 21,808,410	\$ 19,031,713	\$ 16,082,592

Financial Ratios:

	Proforma (a)			
	YE Aug 31, 2006	2006	2005	2004
Debt service coverage (x)	19.69	25.07	29.52	5.93
Debt to expendable net assets (x)	0.14	0.09	0.10	0.13
Expendable net assets to operations (x)		5.28	4.85	4.17
Margin (%)		4.9%	4.9%	0.3%

(a) Recalculates 2006 audited results to include the impact of this proposed financing.

Financial Discussion:

The University has experienced substantial growth in its total net assets over the past several years. The University's diverse income stream sufficiently supports operating expenses.

In FY 2006, Total Net Assets increased more than \$2.7 billion from FY 2005 to \$18.4 billion. Unrestricted Net Assets have increased significantly to \$13.4 billion or 73% of unrestricted to total net assets, up 43% from FY 2004 to FY 2006. Total revenues have increased an average of 10% over the last three fiscal years with total expenses increasing by an average of 7.5% over the same period.

The University's Financial Statements reflect strong liquidity and investment returns with solid operating results overall.

The University closely manages its cash balances to maximize returns on its funds through short-term investments. The Statements of Financial Position maintained a cash position averaging nearly \$433 million over the review period.

Debt service coverage levels are impressive and remain very strong, with the proposed financing reflecting a pro forma debt service coverage ratio of nearly 20x. In addition, debt to expendable net assets ratios have been consistently low with the pro forma at .14x. These ratios indicate the University's ability to effectively manage its debt. Margins have been strong over the last two years at nearly 5%.

III. STUDENTS, COLLEGE COSTS, AND FACULTY STATISTICS:

Applicant Pool

The University maintains its reputation as a leading national learning institution creating outstanding student demand. The University attracts large numbers of highly qualified applicants for admission to its undergraduate and graduate programs. The number of applicants has increased over the last 5 years, which allows a stable level of enrollment. It remains among the most selective in the nation as indicated by its 5-year average of 12% acceptance of freshman. For the 2006 fall quarter, the University enrolled 6,689 undergraduate and 7,880 graduate full-time equivalent students. For the academic year 2006, 1,756 bachelor degrees and 3,093 advanced degrees were conferred. The following table provides a summary for the last five years of undergraduate and graduate applications, admissions and enrollment.

Freshman and Transfer (Combined)*

Academic Year	Applications	Offered Admissions	Selectivity Ratio	New Enrollments
2002-2003	19,963	2,473	12.4%	1,724
2003-2004	19,858	2,444	12.3%	1,721
2004-2005	20,517	2,586	12.6%	1,726
2005-2006	21,476	2,488	11.6%	1,683
2006-2007	23,740	2,516	10.6%	1,710

* Headcount, not full-time equivalent

Graduate Programs *

Academic Year	Applications	Offered Admissions	Selectivity Ratio	New Enrollments
2002-2003	30,778	4,218	13.7%	2,186
2003-2004	32,503	4,443	13.7%	2,300
2004-2005	30,630	4,361	14.2%	2,378
2005-2006	30,222	4,356	14.4%	2,405
2006-2007	31,583	4,323	13.7%	2,337

* Headcount, not full-time equivalent

Enrollments and Degrees

Over the past five years, total enrollments remained fairly constant, as did the number of degrees awarded.

Academic Year	<u>Enrollment</u>			<u>Degrees Conferred</u>		
	Undergraduate FTE	Graduate FTE	Total FTE	Bachelor	Graduate	Total
2002-2003	6,371	6,586	12,957	1,788	2,855	4,643
2003-2004	6,654	6,671	13,325	1,714	2,931	4,645
2004-2005	6,753	6,940	13,693	1,789	2,945	4,734
2005-2006	6,705	7,025	13,730	1,756	3,093	4,849
2006-2007	6,689	7,880	14,569	N/A	N/A	N/A

Undergraduate Tuition, Fees, Room and Board

The total cost for a full-time Undergraduate student at The University for 2006-07, including tuition, room, board and fees is \$42,926. A five-year summary of comprehensive fees is provided below. Total cost has increased an average of 5% per year over the last five years.

<u>Academic Year</u>	<u>Undergraduate Tuition and Fees</u>	<u>Average Room and Board</u>	<u>Undergraduate Total</u>
2002-2003	\$27,204	\$8,680	\$35,884
2003-2004	\$28,563	\$9,073	\$37,636
2004-2005	\$30,103	\$9,503	\$39,606
2005-2006	\$31,200	\$9,932	\$41,132
2006-2007	\$32,994	\$9,932	\$42,926

Faculty Summary

The total number of faculty has increased in the last decade. The following table provides a breakdown of the faculty for each of the last five academic years.

<u>Academic Year</u>	<u>Tenured Full-Time</u>	<u>Other Full Time</u>	<u>Part-Time</u>	<u>Total</u>
2002-2003	932	764	19	1,715
2003-2004	933	783	27	1,743
2004-2005	936	817	30	1,783
2005-2006	951	789	30	1,770
2006-2007	976	797	33	1,806

IV. BACKGROUND:

General:

Founded in 1885, Stanford University is one of a select group of American universities that has achieved eminence in both undergraduate and graduate education and in a broad range of academic disciplines. It is internationally recognized for the quality of its teaching and research, its distinguished faculty and its outstanding student body. Situated on 8,200 acres near Palo Alto in Santa Clara County, the University is 35 miles southeast of San Francisco and 20 miles northwest of San Jose. The program of instruction at the University is organized around seven schools: Business, Earth Sciences, Education, Engineering, Humanities and Sciences, Law and Medicine. In addition, a number of interdisciplinary research institutes bring together faculty and students from throughout the University to collaborate on research topics that cross traditional boundaries.

Administration:

The University is governed by a Board of Trustees consisting of a minimum of 25 and a maximum of 35 members, including the President of the University. The Board is custodian of the endowment and all the properties of the University. The Board administers the invested funds and has the ultimate authority over the annual budget, and policies for operation and control of the University. The Board appoints the President of the University and conducts its business through nine standing committees.

Accreditation and Affiliations:

The University is fully 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 last WASC accreditation was in academic year 2000.

The University also has professional accreditation from the Accreditation Board for Engineering and Technology using criteria and standards developed and accepted by United States engineering communities. Stanford Law School has been accredited by the American Bar Association since 1923. Stanford Law School was a Charter Member of the American Association of Law Schools in 1900 and has remained a member in good standing ever since. The following undergraduate curricula are professionally accredited at the University: Chemical Engineering, Civil Engineering, Electrical Engineering, Industrial Engineering and Mechanical Engineering. The School of Medicine and the Graduate School of Business are also professionally accredited by the corresponding nationally accepted accrediting associations. Also the School of Education, the Counseling Psychology Program, the Stanford Teacher Education Program and the Prospective Principals Program have the appropriate state accreditations.

Academic Programs:

The University is a major research and teaching university offering a wide range of undergraduate, graduate and professional degree programs. The Schools of Earth Sciences, Engineering and Humanities and Sciences (which includes the core humanities, fine arts, languages and literatures, the social sciences, mathematics and the natural sciences) offer both undergraduate and graduate degree programs. The Schools of Business, Education, Law and Medicine offer graduate and professional degree programs. Undergraduate students have access to a wide variety of undergraduate majors and to classes and research opportunities in all seven schools. Degree programs are offered by departments and through interdepartmental programs involving faculty from multiple departments in one or more Schools. The University, its Schools and its academic programs hold all appropriate accreditations.

V. OUTSTANDING DEBT (\$000's):

Issue:	Original Issue Amount	Amount Outstanding As of 8/31/06	Estimated Amount Outstanding after Proposed Financing
Existing:			
CEFA Revenue Bonds – Series L1– L9	\$83,818	\$83,818	\$83,818
CEFA Revenue Bonds Series O	89,555	89,555	89,555
CEFA Revenue Bonds – Series P,Q & R	323,885	323,885	-0-
CEFA Revenue Bond Series M	77,820	28,320	-0-
CEFA Revenue Bond Series N	180,000	180,000	-0-
CEFA Series S1-4	181,200	181,200	181,200
Stanford University Bonds – Taxable	150,000	150,000	150,000
Medium Term Notes - Taxable	150,000	150,000	150,000
Commercial Paper – Taxable	N/A	63,000	63,000
Other, with various interest rates	N/A	9,042	9,042
Taxable Bonds Series 2002A PARS		<u>50,000</u>	<u>50,000</u>
Subtotal University Notes and Bonds		1,308,820	776,615
Proposed:			
CEFA Series T, 2007			<u>700,000</u>
Total		<u>\$1,308,820</u>	<u>\$1,476,615</u>

N/A – Not applicable

VI. DUE DILIGENCE:

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

- Religious Due Diligence
- Legal Review
- Compliance with Assembly Bill 1341 – California Environmental Quality Act

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution in an amount not to exceed \$700,000,000 to issue tax exempt revenue bonds for Stanford University, subject to a bond rating of at least an “A” category (or equivalent short-term rating) by a nationally recognized rating agency and the standard bond issuance guidelines.