

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY  
BOND FINANCING PROGRAM**

**EXECUTIVE SUMMARY**

<b>Applicant:</b>	Claremont McKenna College (“CMC”) Claremont, California Los Angeles County	<b>Amount Requested:</b>	\$50,000,000
		<b>Loan Term:</b>	30 Years
<b>Facility Type:</b>	Private University	<b>Date Requested:</b>	April 26, 2007
<b>Accreditations:</b>	Western Association of Schools and Colleges	<b>Final Resolution Number:</b>	246
<b>Use of Bond Proceeds:</b> Bond proceeds will be used to construct, renovate and equip various facilities throughout the campus. CMC will also use a portion of the proceeds to refund CEFA Pooled Series 1995 A bonds and advance refund a portion of CEFA Series 1999 bonds.			
<b>Type of Issue:</b>	Public offering, fixed rate		
<b>Credit Enhancement:</b>	None		
<b>Expected Rating:</b>	Aa1 (Moody’s)		
<b>Senior Underwriter:</b>	Prager, Sealy & Company LLC		
<b>Bond Counsel:</b>	Orrick Herrington & Sutcliffe LLP		
<b>Financial Overview:</b> CMC has shown increased profitability in each of the last three years due to steady revenue growth and controlled expenditure growth. CMC’s balance sheet is strong with good liquidity and significant financial resources.			
<b>Sources of Revenue (000s) (FYE 6/30/06)</b>			
	<u>Amount</u>	<u>Percent of Total</u>	
Net student revenues	\$32,591	51.9%	
Investment income designated for operations	16,355	26.1%	
Net assets released from restrictions	7,022	11.2%	
Private gifts and grants	4,492	7.2%	
Other revenue	1,329	2.1%	
Federal grants	697	1.0%	
Private contracts	<u>290</u>	<u>0.5%</u>	
Total	<u>\$62,776</u>	<u>100%</u>	
<b>Sources of Funds:</b>			
Bond proceeds	\$50,000,000	<b>Uses of Funds:</b>	
		Construction/renovation	\$31,359,626
		Refunding	15,028,582
		Capitalized Interest	2,949,993
		Financing costs	<u>661,799</u>
Total Sources	<u>\$50,000,000</u>	Total Uses	<u>\$50,000,000</u>
<b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.			
<b>Recommendation:</b> Staff recommends the Authority approve a resolution in an amount not to exceed \$50,000,000 for Claremont McKenna College, subject to the bonds having at least an “A” rating by a nationally recognized rating agency and meeting the standard bond issuance guidelines for “A” rated debt.			

**STAFF SUMMARY AND RECOMMENDATION**

**Claremont McKenna College (“CMC”)**

April 26, 2007

Final Resolution Number: 246

**I. PURPOSE OF FINANCING:** Bond proceeds will be used to construct, renovate and equip various facilities throughout the campus. CMC may also use a portion of the proceeds to refund CEFA Pooled Series 1995 A bonds and advance refund a portion of CEFA Series 1999 bonds. CMC is seeking Leadership in Energy and Environmental Design (“LEED”) certification on the new buildings to be constructed with this financing.

**Construction, renovation and acquisition of various campus facilities ..... \$31,359,626**

CMC plans to construct, renovate, furnish and equip certain on campus buildings including student dormitories, faculty/staff housing, gymnasium and athletic track.

**Refunding..... 15,028,582**

CMC anticipates refunding its entire remaining outstanding portion of the CEFA Pooled 1995 Series A bonds. The 1995 Series A bonds were originally used to advance refund CMC’s portion of CEFA Pooled Series 1987 bonds.

CMC will also advance refund a portion of CEFA Series 1999 bonds. The 1999 bonds were used, in part, to refund and defease CEFA Series 1997. The 1997 bonds were applied to finance the acquisition, construction, rehabilitation, remodeling, renovation and/or equipping of two academic expansion buildings.

**Capitalized Interest..... 2,949,993**

**Financing Costs ..... 661,799**

Underwriters Discount .....\$390,869  
Cost of Issuance ..... 195,500  
Issuer fees ..... 68,978  
Contingency ..... 6,452

**Total ..... \$50,000,000**

**Financing Structure:**

- \$50,000,000 total par value
- General obligation pledge
- Expected Moody's Rating of Aa1
- Fixed interest rate with serial and term bonds
- Negotiated public offering
- Up to 30 year maturity

## II. FINANCIAL STATEMENTS AND ANALYSIS:

### Claremont McKenna College Statement of Activities Unrestricted (000's)

	Fiscal Year Ended June 30,		
	2006	2005	2004
Revenues:			
Net student revenues	\$ 32,591	\$ 30,001	\$ 27,853
Private gifts and grants	4,492	4,569	4,053
Federal grants	697	550	451
Private contracts	290	429	153
Investment income designated for operations	16,355	18,080	17,578
Other revenue	1,329	1,037	1,434
Net assets released from restrictions	7,022	7,219	6,129
Total revenues	<u>62,776</u>	<u>61,885</u>	<u>57,651</u>
Expenses:			
Instruction	21,305	19,888	18,585
Research	5,516	4,894	4,294
Academic support	4,887	5,157	4,958
Student services	9,513	9,331	8,832
Institutional support	10,929	11,974	10,991
Auxiliary enterprises	7,770	8,126	8,323
Facility write down	-	-	613
Total expenses	<u>59,920</u>	<u>59,370</u>	<u>56,596</u>
Revenues over expenses	<b>2,856</b>	<b>2,515</b>	<b>1,055</b>
Other changes in net assets			
Realized and unrealized losses, net of allocation to operations	31,069	14,432	26,021
Net assets released for capital projects	-	86	1,930
Matured annuity and life income agreements	2,072	587	476
Transfers to other Claremont Colleges		(81)	(195)
Staff retirement plan comprehensive loss	514	(50)	410
Transfers and redesignations between net asset categories	(61)	(5)	49
Other	(28)	-	-
Change in net assets before cumulative effect of change in accounting policy	<b>36,422</b>	<b>17,484</b>	<b>29,746</b>
Cumulative effect of change in accounting principle	<u>(547)</u>	<u>-</u>	<u>-</u>
<b>Change in net assets after cumulative effect of change in accounting principle</b>	<b>35,875</b>	<b>17,484</b>	<b>29,746</b>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>234,949</u>	<u>217,465</u>	<u>187,719</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 270,824</u>	<u>\$ 234,949</u>	<u>\$ 217,465</u>

**Claremont McKenna College**  
**Statement of Financial Position (000's)**

	As of June 30,		
	2006	2005	2004
<b>ASSETS:</b>			
Cash	\$ 640	\$ 260	\$ 2,348
Accounts and other receivables, net	16,137	14,896	13,854
Contributions receivable, net	3,275	4,983	5,180
Contributions receivable from revocable trust	8,893	8,642	8,325
Beneficial interest in trusts	11,833	-	-
Investments	488,862	440,503	428,251
Prepaid expenses and deposits	1,246	1,257	701
Plant facilities, net	62,994	63,476	62,037
<b>TOTAL ASSETS</b>	<b>\$ 593,880</b>	<b>\$ 534,017</b>	<b>\$ 520,696</b>
<b>LIABILITIES AND NET ASSETS:</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$ 3,759	\$ 3,421	\$ 3,591
Funds held in trust for others	3,515	683	518
Obligations under securities lending program	15,742	15,924	29,921
Deposits and deferred revenues	1,029	966	973
Staff retirement liability	399	897	898
Life income and annuities payable	38,977	42,453	41,545
Bonds and notes payable	31,260	32,064	32,849
Government advances for student loans	3,106	3,075	2,931
Refundable advances from revocable trusts	8,893	8,642	8,325
Asset Retirement Obligation	664	-	-
<b>TOTAL LIABILITIES</b>	<b>107,344</b>	<b>108,125</b>	<b>121,551</b>
<b>Net assets:</b>			
Unrestricted	270,824	234,949	217,465
Temporarily restricted	34,506	21,288	19,901
Permanently restricted	181,206	169,655	161,779
<b>TOTAL NET ASSETS</b>	<b>486,536</b>	<b>425,892</b>	<b>399,145</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 593,880</b>	<b>\$ 534,017</b>	<b>\$ 520,696</b>

**Financial Ratios:**

	<b>Proforma (a)</b>			
	<b>FYE June 30, 2006</b>			
Debt service coverage (x)	8.13	17.26	9.46	15.27
Debt to expendable net assets (x)	0.22	0.11	0.13	0.14
Expendable net assets to operations (x)		5.10	4.32	4.19
Margin (%)		5.0%	4.0%	2.0%

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

## **Financial Discussion:**

**CMC has shown increased profitably in each of the last three years due to steady revenue growth and controlled expenditure growth.**

CMC has exhibited solid revenue growth over the last three years going from nearly \$57.7 in FY 2004 to \$63 million in FY 2006. Revenues consist primarily of tuition and investment income providing CMC with liquidity and flexibility. Tuition revenue has increased an average of 8% each year providing stable growth. Investment income designated for operations had decreased by about 7%. This decrease was related to the payout formula established by CMC that captured negative investment performance recorded during the past three years and the Board of Trustees decision to reduce operating expenses and the amount of investment income withdrawn under the spending formula. With CMC's plan to reduce their reliance on investment income for operations, CMC will rely more on student revenues and private gifts.

CMC has been given a bequest in which they will receive a beneficial interest in a trust to be distributed within the next eight years. This bequest will increase the private gifts and grants by approximately 74% or \$11.2 million and contribute to the growth of CMC's revenue base.

CMC has controlled expenditures, increasing only 6% compared to an increase in revenues of 9% over the last three years. CMC continues to implement controls over the expenses.

**CMC's balance sheet is strong with good liquidity and significant financial resources.**

CMC's balance sheet continues to grow with positive operating results and continued earnings from its investments. Liquidity is good with over \$60 million in cash and short-term investments. CMC currently has \$31 million in long-term debt compared to over \$486 million in total net assets. CMC's debt-to-expendable net assets have remained steady and even with the proposed financing will be acceptable at .22x. Debt service coverage is high at 17.26x, and with the proposed debt, the proforma debt service coverage remains high with 8.13x. CMC's ability to handle this additional debt is evident.

### **III. BACKGROUND:**

CMC is a non-profit, privately endowed co-educational liberal arts college with an emphasis on economics, government and international relations. Enrollment for the 2002-2003 academic year is 1,009 full time equivalent students, 100 percent of whom are undergraduate students. CMC was founded in 1946 as Claremont Men's College and became coeducational in 1976, then was renamed in 1981 in honor of founding trustee Donald C. McKenna.

CMC's mission is to prepare students for leadership roles in business, government and the professions. A focused mission, prominent faculty, the Marian Miner Cook Athenaeum speaker series, a Washington D.C. internship program, a community service internship program, the Children's School at Claremont McKenna College, and nine on-campus research institutes are a few of many distinguishing feature of CMC. The campus consists of approximately 50 acres and 39 buildings.

CMC is a member of The Claremont Colleges, a consortium comprised of five undergraduate colleges and two graduate schools sharing common resources that rival other 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 voting members. There are currently 36 regular voting members, three alumni voting trustees, two ex-officio voting members, and 18 non-voting life members. The two ex-officio members who sit with the Board are the President of the Alumni Association and the President of the Parents Club, each of whom serve one-year terms. With the exception of the President of the College, who serves by virtue of her office, all regular and alumni members are elected to three-year terms. Approximately one-third of the members are elected annually.

#### **Accreditations:**

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 visit was in October 1999. The next scheduled WASC visit is in the fall of 2009.

#### **Academic Programs:**

CMC offers a liberal arts curriculum, with 28 separate majors in nine departments. Interdisciplinary majors 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 a single, dual, double or individualized major. They may also elect to complete majors at any of the other undergraduate institutions within The Claremont Colleges.

**IV. OUTSTANDING DEBT (000s):**

<u>Issue Name:</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/06</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
<b>Existing</b>			
CEFA Series 1995A	\$2,385	\$1,230	\$0
CEFA Series 1999	24,000	20,940	7,520
CEFA Series 2003	10,750	9,495	9,495
<b>Proposed</b>			
CEFA Series 2007			48,640
Totals		<u>\$31,665</u>	<u>\$65,655</u>

**V. 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

**VI. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a resolution in an amount not to exceed \$50,000,000 for Claremont McKenna College, subject to the bonds having at least an “A” rating by a nationally recognized rating agency and meeting the standard bond issuance guidelines for “A” rated debt.