

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

| | | | |
|---|---|---|-----------------|
| Applicant: | The President and Board of Trustees of Santa Clara College dba Santa Clara University (“SCU”) 500 El Camino Real Santa Clara, CA 95053 (Santa Clara County) | Amount Requested: | \$53,500,000 |
| | | Date Requested: | August 26, 2010 |
| | | Resolution Number: | 276 |
| Facility Type: | Private University | | |
| Project Site: | 500 El Camino Real, Santa Clara, CA | | |
| Accreditation: | Western Association of Schools and Colleges | | |
| Use of Bond Proceeds: Bond proceeds will be used to complete major renovations to Dunne, Swig, Nobili, Walsh, McLaughlin, Sanfilippo, St. Clare, Graham, Sobrato, Casa and Bellarmine Residence Halls. In addition, a portion of the bond proceeds may be used to refund the CEFA Bonds, Series 2002A. The present value savings of the refunding is approximately \$540,000 over the life of the bonds in the current market. | | | |
| Type of Issue: | Negotiated public offering, 30-year maturity, fixed rate bonds | | |
| Credit Enhancement: | None | | |
| Expected Credit Rating: | Aa3 (Moody’s) | | |
| Senior Underwriter: | Morgan Stanley | | |
| Bond Counsel: | Orrick, Herrington & Sutcliffe LLP | | |
| Environmental Benefits: SCU is expected to incorporate several energy-efficient and environmentally beneficial design principals into its renovation and construction projects. | | | |
| Financial Overview: SCU has experienced steady increase in revenues. SCU’s financial strength appears to be sound with approximately \$497 million in unrestricted net assets. | | | |
| <u>Estimated Sources of Funds (000s):</u> | | <u>Estimated Uses of Funds (000s):</u> | |
| Par Amount of Bonds | \$53,500 | Renovation of Residence Halls | \$36,475 |
| | | Refunding CEFA Bonds, Series 2002A | 16,500 |
| | | Financing Costs | <u>525</u> |
| Total Sources | <u>\$53,500</u> | Total Uses | <u>\$53,500</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 Resolution No. 276 in an amount not to exceed \$53,500,000 for Santa Clara University, subject to the bonds having at least an “A” category rating by a nationally recognized rating agency and meeting the standard bond issuance provisions for “A” rated debt. | | | |

**STAFF SUMMARY AND RECOMMENDATION
BOND FINANCING PROGRAM**

SANTA CLARA UNIVERSITY (“SCU”)

August 26, 2010
Resolution Number: 276

I. PURPOSE OF FINANCING: SCU plans to finance capital improvements to Dunne, Swig, Nobili, Walsh, McLaughlin, Sanfilippo, St. Clare, Graham, Sobrato, Casa and Bellarmine Residence Halls in order to attract and retain students in a competitive market for higher education in California. Student quality of life will be improved as a result of the upgrades and safety will be enhanced (i.e. fire code and ADA compliance).

Renovation of Residence Halls* *\$36,475,000

SCU plans to upgrade and renovate several residence halls. The upgrades and renovations include the following:

- Room improvements
- Common bathroom modifications
- Common meeting space modifications
- Elevator replacement
- Infrastructure replacement
- HVAC upgrades
- Rebuilding of the Graham hall complex.

SCU plans to use approximately \$12 million of bond proceeds to reimburse itself for expenses associated with the renovation of the residence halls in FY 2010 and early FY 2011.

In the unlikely event the residence hall projects are postponed, SCU wishes to use bond proceeds for other projects such as an enrollment management building, law school building and engineering school facilities to the extent such projects are categorically exempt in accordance with Section 15301 of the California Environmental Quality Act.

Environmental Benefits:

The upgrades and renovations will create a benefit to the environment by incorporating equipment that will reduce consumption of energy including updating light fixtures, installing low flow water fixtures, use of energy efficient windows, utilizing energy saving HVAC systems, and use of low emission paints.

Refunding Series 2002A Bonds.....* *16,500,000

SCU plans to refund CEFA Bonds, Series 2002A. The bonds are insured by MBIA and were originally issued to finance new construction and renovation projects primarily to provide affordable student housing and parking. This refunding may allow SCU to remove the bond insurance. The present value savings of the refunding is approximately \$540,000 over the life of the bonds in the current market.

| | | |
|-------------------------------------|-----------|----------------------------|
| <i>Financing Costs</i> | | <u>525,000</u> |
| Cost of Issuance | \$300,000 | |
| Underwriter's Discount | 225,000 | |
| Total Uses of Funds | | <u>\$53,500,000</u> |

II. FINANCIAL STATEMENTS AND ANALYSIS:
SANTA CLARA UNIVERSITY
Statement of Activities
Unrestricted (000's)

| | Fiscal Year Ended June 30, | | |
|--|----------------------------|-------------------|-------------------|
| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Revenues: | | | |
| Tuition and fees | \$ 195,653 | \$ 187,271 | \$ 167,096 |
| Contributions | 3,766 | 2,132 | 2,696 |
| Grant revenues | 6,768 | 5,771 | 4,153 |
| Income on investments | 3,649 | 7,461 | 9,954 |
| Investment gains, net | 1,233 | 1,378 | 6,540 |
| Other | 14,309 | 12,655 | 8,408 |
| Auxiliary activities | 23,142 | 22,622 | 22,417 |
| Total revenues | <u>248,520</u> | <u>239,290</u> | <u>221,264</u> |
| Net assets released from restrictions | <u>53,601</u> | <u>90,890</u> | <u>61,712</u> |
| Total revenues and other support | <u>302,121</u> | <u>330,180</u> | <u>282,976</u> |
| Expenses: | | | |
| Educational and general: | | | |
| Instruction | 107,549 | 101,655 | 90,244 |
| Research | 5,253 | 5,189 | 3,206 |
| Public service | 1,696 | 2,232 | 1,820 |
| Academic support | 33,473 | 26,601 | 26,039 |
| Student services | 34,070 | 33,546 | 32,366 |
| Institutional support | 48,701 | 44,138 | 44,620 |
| Scholarship and fellowships | 1,700 | 2,188 | 1,411 |
| Total educational and general | <u>232,442</u> | <u>215,549</u> | <u>199,706</u> |
| Auxiliary activities | <u>19,648</u> | <u>18,386</u> | <u>17,450</u> |
| Total expenses | <u>252,090</u> | <u>233,935</u> | <u>217,156</u> |
| Increase in unrestricted net assets from operations | 50,031 | 96,245 | 65,820 |
| Nonoperating: | | | |
| Investment gains/losses, net of distributions | (56,314) | (15,658) | 26,381 |
| Loss on the disposal of assets | (993) | (321) | (577) |
| Loss on defeasance of debt | (187) | (697) | - |
| Loss on interest rate swap | <u>(2,732)</u> | <u>(2,736)</u> | <u>(153)</u> |
| Change in net assets before changes in accounting | (10,195) | 76,833 | 91,471 |
| Cumulative effect of changes in accounting principle | <u>(127,520)</u> | <u>-</u> | <u>-</u> |
| Change in net assets | <u>(137,715)</u> | <u>-</u> | <u>-</u> |
| Increase in unrestricted net assets | (137,715) | 76,833 | 91,471 |
| Net assets, beginning of year | <u>635,583</u> | <u>558,750</u> | <u>467,279</u> |
| Net assets, end of year | <u>\$ 497,868</u> | <u>\$ 635,583</u> | <u>\$ 558,750</u> |

SANTA CLARA UNIVERSITY
Statement of Financial Position (000's)

| | As of June 30 | | |
|---|---------------------|---------------------|---------------------|
| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| ASSETS: | | | |
| Cash and cash equivalents | \$ 52,457 | \$ 7,006 | \$ 5,229 |
| Contributions receivable, net | 34,694 | 36,685 | 54,448 |
| Student and other receivables | 12,461 | 13,522 | 12,631 |
| Inventories | 505 | 505 | 405 |
| Investments | 631,417 | 827,639 | 865,018 |
| Deposits in trust | 7,048 | 15 | 8,274 |
| Other assets | 5,056 | 6,229 | 6,632 |
| Plant facilities, net | 518,687 | 500,709 | 398,147 |
| TOTAL ASSETS | \$ 1,262,325 | \$ 1,392,310 | \$ 1,350,784 |
| LIABILITIES AND NET ASSETS: | | | |
| Liabilities: | | | |
| Accounts payable and accrued expenses | \$ 31,417 | \$ 40,262 | \$ 37,179 |
| Deposits and deferred revenue | 16,857 | 14,371 | 12,189 |
| Amounts held on behalf of others | 42,068 | 51,522 | 30,516 |
| Annuity and trust obligations | 6,030 | 8,084 | 8,953 |
| Asset retirement obligation | 3,768 | 3,712 | 4,145 |
| Bonds and notes payable | 179,858 | 168,077 | 172,309 |
| U.S. government loan advances | 6,879 | 6,684 | 6,620 |
| TOTAL LIABILITIES | 286,877 | 292,712 | 271,911 |
| COMMITMENTS AND CONTINGENCIES: | | | |
| Net assets: | | | |
| Unrestricted | 497,868 | 635,583 | 558,750 |
| Temporarily Restricted | 248,848 | 232,598 | 297,185 |
| Permanently Restricted | 228,732 | 231,417 | 222,938 |
| TOTAL NET ASSETS | 975,448 | 1,099,598 | 1,078,873 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 1,262,325 | \$ 1,392,310 | \$ 1,350,784 |

Financial Ratios:

| | Proforma | | | |
|---|--------------------------|-------------|-------------|-------------|
| | FYE June 30, 2009 | 2009 | 2008 | 2007 |
| Debt service coverage (x) | 1.64 | 1.70 | 5.38 | 9.43 |
| Debt to expendable net assets (x) | 0.33 | 0.26 | 0.26 | 0.22 |
| Expendable net assets to operations (x) | | 2.96 | 3.71 | 3.94 |
| Margin (%) | | 17 | 29 | 23 |

Financial Discussion

SCU has experienced a steady revenue stream over the review period.

SCU's primary sources of unrestricted revenue are tuition and fees and auxiliary activities. Over the review period, tuition and fees have increased an average of 9.3% each fiscal year with enrollment reaching maximum capacity. Auxiliary activities revenues are generated principally from student room and board fees and from campus bookstore sales and have increased by 3% from FY 2008 to FY 2009.

In FY 2009, SCU experienced a decline in income on investments, as well as investment gains, net, due to the decrease of investment returns resulting from the overall economic recession, which is consistent with the general trend of the financial markets and investment performance. The decline of \$19 million between FY 2007 and FY 2009 in net assets released from restriction was due to the end of construction of two major buildings for which donations were given.

In addition to tuition and fees, contributions and grant revenue are other sources of revenue. SCU conducts a comprehensive ongoing effort to obtain gifts, grants, and bequests from private sources. Contributions increased from approximately \$2.7 million in FY 2007 to \$3.7 million in FY 2009. Over the review period, total annual cash gifts and grants received averaged \$42.7 million annually due to large awards received in FY 2009.

SCU's management kept total operating expenses in line with revenue, which allowed SCU to post positive operating results in FY 2009.

SCU's financial strength appears to be sound with approximately \$497 million in unrestricted net assets.

SCU's cash position increased during the review period from \$5.2 million in FY 2007 to \$52 million in FY 2009 due to a shift to a more conservative investment strategy for working capital funds. SCU shortened their investment maturities and placed (?) most of its working capital in money markets during FY 2009.

Temporarily restricted net assets increased from FY 2008 to FY 2009 due to the adoption of a new accounting principle (FSP FAS 117-1)¹, which resulted in reclassifying \$127.5 million of expendable appreciation on donor-restricted endowment funds from unrestricted to temporarily restricted net assets.

SCU maintains a strong unrestricted net asset base of over \$475 million in unrestricted net assets. In addition, its consistent expendable net assets to operations ratio of nearly 3x appears to indicate that these sources could sustain SCU operations. With this proposed financing, the proforma debt service coverage ratio continues to remain solid at a 1.64x, indicating SCU can comfortably support additional debt.

¹ FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act and requires additional disclosure about an organization's endowment funds.

III. BACKGROUND:

Santa Clara University (SCU) is a non-profit, privately endowed, co-educational university offering 51 undergraduate, 33 graduate, and 2 professional degree programs. Enrollment for the fall term of the 2009-2010 academic year was 8,846 students. Undergraduate and graduate instruction is provided by the College of Arts and Sciences, the School of Engineering and the Thomas and Dorothy Leavey School of Business. The School of Law and the School Education and Counseling Psychology and Pastoral Ministries offer programs at the graduate level only. The Jesuit School of Theology of Santa Clara University located in Berkeley, California was integrated into SCU in July 2009 and offers graduate level programs.

Located in "Silicon Valley," a world center for high technology industries, SCU is 46 miles south of San Francisco and a mile west of San Jose. Its 106-acre campus has more than 50 major buildings. These include 13 residence halls, four apartment complexes, Harrington Learning Commons, Sobrato Technology Center and Orradre Library, Lucas Hall housing the School of Business, Edwin A. Heafey Law Library, the Center for Performing Arts, the Thomas E. Leavey Activities Center, the Robert F. Benson Memorial Center, the de Saisset Museum, the Pat Malley Fitness and Recreation Center, the Locatelli Student Activities Building and other numerous classroom and administration buildings. In the heart of the tree-lined campus stands the historic Mission Santa Clara de Asis, established in 1777 by Franciscan missionaries as the eighth in a series of 21 California missions.

SCU was founded at the site of the Mission in 1851 by the Society of Jesus, or Jesuits as the order is commonly known, and is the oldest institution of higher education in California. Although SCU remains affiliated with the Catholic Church and the Society of Jesus, it is governed by an independent Board of Trustees and welcomes persons of all religious persuasions as members of its student body, faculty and administration.

Administration:

SCU is governed by a Board of Trustees composed of at least forty-five (45) but no more than fifty (50) members. The Bylaws require that ten (10) members of the Board will be members of the Society of Jesus (Jesuits), including the President of SCU and the Rector of the Jesuit Community at Santa Clara University (the "Rector"). Of the remaining thirty-five (35) other members, approximately twenty-five (25%) percent will be alumni, one of whom will have received a bachelor's degree from SCU not more than the last five (5) years prior to election as a Trustee. With the exception of the President and the Rector, who serve by virtue of their offices, all members of the Board are elected for a three-year term.

Accreditation:

SCU is fully accredited by the Western Association of Schools and Colleges (WASC). The last WASC accreditation was in 2000 resulting in reaffirmation of accreditation. SCU has recently completed the second of a three stage WASC reaccreditation process and will complete the entire process in 2011. It also has professional accreditation from the Accreditation Board for Engineering and Technology, the Association to Advance Collegiate Schools of Business, the American Association of Museums, and the American Chemical Society. SCU has been approved by the California State Commission on Teacher Credentialing and has been admitted to membership in the National Association of Schools of Music and the National Association of Schools of Theatre. The School of Law is accredited by the American Bar Association and the State Bar of California, and is a member of the Association of American Law Schools. JST-SCU is accredited by the Association of Theological Schools.

Academic Programs:

SCU is organized into six major academic divisions:

College of Arts and Sciences is the largest academic unit on campus, with faculty that teach all of the courses in SCU's undergraduate core curriculum. Its 30 departments and special programs offer two undergraduate degrees in 36 majors.

Thomas and Dorothy Leavey School of Business and Administration offers both undergraduate and graduate programs in Business including an Executive MBA program.

The *School of Engineering* offers both Bachelor of Science and Masters of Science programs in Civil Engineering, Computer Engineering, and Electrical Engineering, General Engineering, and Mechanical Engineering. It also offers Master of Science programs in Applied Mathematics, Engineering Management and Software Engineering. Ph.D. programs are offered in Electrical Engineering, Computer Engineering and Mechanical Engineering.

The *School of Law* offers a full range of courses dealing with federal, state and international law leading to the Juris Doctor Degree. Its day and evening divisions also provide students with opportunities to participate in overseas summer programs, internships and institutes, such as the Institutes and the Institute of International and Comparative Law.

The *School of Education, Counseling, Psychology and Pastoral Ministries* includes programs leading to the Master of Arts in Counseling, Counseling Psychology, Marriage, Family, and Child Counseling, Education, Educational Administration, and Special Education.

The *Jesuit School of Theology of Santa Clara University* offers graduate level degrees in theology, divinity and theological studies, a Bachelor of Sacred Theology Degree and Licentiate in Sacred Theology.

IV. OUTSTANDING DEBT:

| Issue Name | Original Amount | Amount Outstanding As of 06/30/09* | Estimated Amount Outstanding after Proposed Financing |
|--------------------------|-----------------|------------------------------------|---|
| Existing | | | |
| CEFA Bonds, Series 1999 | \$82,181,000 | \$78,789,000 | \$78,789,000 |
| CEFA Bonds, Series 2002A | 21,600,000 | 18,996,000 | -0- |
| CEFA Bonds, Series 2003A | 23,600,000 | 12,145,000 | 12,145,000 |
| CEFA Bonds, Series 2008 | 72,485,000 | 69,928,000 | 69,928,000 |
| Proposed | | | |
| CEFA Bonds, Series 2010 | | N/A | 53,500,000 |
| Totals | | \$179,858,000 | \$214,362,000 |

*Includes amortization of Bond Premium/Discounts.

V. DUE DILIGENCE:

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

- Religious Due Diligence
- Legal Review
- Compliance with Section 94212(b) of the Education Code – California Environmental Quality Act

VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution No. 276 in an amount not to exceed \$53,500,000 for Santa Clara University, subject to the bonds having at least an “A” category rating by a nationally recognized rating agency and meeting the standard bond issuance provisions for “A” rated debt.