

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

Applicant: Keck Graduate Institute (KGI) Claremont, California Los Angeles County	Bond Par Amount: \$13,605,000 Loan Term: 30 years Date Requested: April 27, 2000 Final Resolution Number: 177
Facility Type: Private University	
Accreditations: Western Association of Schools and Colleges	
New Institution: Accredited through affiliation with Claremont Graduate University	

Purpose of financing: To reimburse KGI's costs of securing land and buildings for its new campus. To renovate buildings for educational uses and to secure land for future expansion.

Type of Issue: Public Offering, fixed interest rate
Credit Enhancement: None
Expected Rating: Baa2 (Moody's)
Senior Underwriter: Prager, McCarthy & Sealy
Bond Counsel: Arter & Hadden

Financial Overview: KGI is a new graduate school (affiliated with the Claremont Colleges consortium) which will enroll its first students in the 2000-2001 academic year. KGI has received a \$50 million grant from the W.M. Keck Foundation to fund this new graduate school specializing in applied sciences. KGI currently has over \$36 million in net assets and no debt. These net assets are expected to increase as KGI seeks additional support through its fundraising operations. Projections of operating results prepared by an independent consulting group indicate that KGI has a strong ability to manage the proposed debt.

<u>Sources of Revenue (FYE 6/30/99)</u>	<u>Amount</u>	<u>Percent of Total</u>
<u>Revenue</u>		
Private gifts and grants	\$1,089,656	9.3%
Investment Income	713,782	6.0%
Net releases of temp. restricted net assets	<u>9,955,918</u>	<u>84.7%</u>
Total Revenue	<u>\$11,759,356</u>	<u>100%</u>

<u>Sources of Funds:</u>		<u>Uses of Funds:</u>	
Bond Proceeds	\$13,605,000	Reimburse property purchase	\$9,000,000
Original Issue Discount	(272,100)	Renovation of existing buildings	2,100,000
Borrower Equity	45,000	Land acquisition	900,000
		Debt Service Reserve	1,063,388
		Financing costs	<u>314,512</u>
Total Sources	<u>\$13,377,900</u>	Total Uses	<u>\$13,377,900</u>

Recommendation: Staff recommends the Authority approve a resolution in an amount not to exceed \$13,605,000 for Keck Graduate Institute, subject to a minimum "Baa3" rating by a nationally recognized rating agency and meeting the standard bond issuance provisions for Baa rated debt.

**STAFF SUMMARY AND RECOMMENDATION
KECK GRADUATE INSTITUTE**

April 27, 2000

Final Resolution Number: 177

PURPOSE OF FINANCING: Keck Graduate Institute (KGI), is a new graduate institution of the Claremont Colleges Consortium, founded in 1997 with a \$50 million grant from the W.M. Keck Foundation. To date, \$30 million of this grant has been received and the remaining \$20 million is scheduled to be received in two \$10 million payments by June 30, 2002. This final \$20 million is contingent on receiving matching commitments from other donors. In July 1999, KGI used \$12 million of internal funds to purchase land and buildings for its graduate operations, which depleted its quasi-endowment. KGI proposes to use the majority of bond funds to partially reimburse the purchase. KGI will use the remaining funds to renovate the buildings on its campus to accommodate educational uses and to secure land needed for future expansion. Specific projects include:

- **Reimburse property purchase \$9,000,000**
In July of 1999, KGI purchased 18 acres and three buildings in Claremont, California as the site for its new graduate school. The purchase price was \$12 million and a final appraisal of \$12.7 million was recently completed in support of this bond transaction.

- **Renovation of existing buildings \$2,100,000**
Two of the buildings on the purchased campus have previously been used for commercial research and development purposes and for light manufacturing of ophthalmic devices. In order to use these buildings for educational purposes, seismic upgrading and fire alarm retrofitting are required, as well as renovation of the interior of the buildings into appropriate classrooms, laboratory and office space. Renovations also include the insertion of fiber optic cable to enable superior data transmission and retrieval.¹

¹ The renovation of the third building, an administration building, for academic purposes is planned for the future. The costs of these renovations are not included in this bond project.

Renovations have been divided into seven phases and their completion or expected completion dates are outlined below.

<u>Phase</u>	<u>Description</u>	<u>Completion Dates</u>
Phase 1	Administrative office renovations	September 15, 1999
Phase 2	Research labs and dark room	February 24, 2000
Phase 3	Teaching labs and prep room	May 31, 2000
Phase 4	Classroom, computer labs, dishwashing area	July 15, 2000
Phase 5	Research laboratories	August 15, 2000
Phase 6	Seismic upgrades	May 31, 2000
Phase 7	Fiber optic infrastructure installation	October 30, 2000

Recently, Phases 1 and 2 have been completed. Construction permits have been granted by the City of Claremont for Phases 3 and 6. The architect recently completed the mechanical drawings for Phase 4. These drawings were submitted to the City for permits during the first week of April 2000. The design for the renovations to be carried out in Phase 5 is still in progress.

The physical plant department at the Claremont Colleges will undertake the work in Phase 3 on a time and material basis. The Phase 6 project has been circulated for competitive bidding. Phases 4 and 5 will be competitively bid among local construction contractors. Bids from contractors on Phase 7 are currently being sought. Guaranteed maximum prices have not yet been ascertained but careful estimates have been calculated based on the detailed scope of work by the Director of the Physical Plant at the Colleges.

▪ Land acquisition	\$900,000
KGI proposes to acquire 2.68 acres of land in Claremont, California directly adjacent to the northwest boundary of KGI's south campus. A broker inquiry about the owner's interest in selling the land elicited a positive response. The property has recently been appraised to have a value of between \$700,000 and \$935,000. An offer to purchase the property will be made in the short-term future. Acquisition of the property would insure the integrity of the campus, protect it from inappropriate development at its boundary, and provide space for future expansion of facilities.	
▪ Debt Service Reserve	\$1,063,388
▪ Financing Costs	\$314,512
Underwriters Discount/Expenses.....	179,512
Costs of Issuance	135,000
Total Uses of Funds	<u>\$13,377,900</u>

Financing Structure:

- General Obligation Pledge
- Revenue Pledge
- Debt Service Reserve Account
- Secured by mortgage on campus property
- 30 year final maturity with serial and term maturities
- Negotiated Public Offering
- Fixed Interest Rate
- Expected Rating: Baa2 (Moody's)

Important Note on Bond Structure:

Although KGI is affiliated with the Claremont consortium, with access to its administrative and technical resources, the consortium will have no responsibility to make any payments with respect to the proposed bonds or any other indebtedness KGI may assume. Moreover, KGI is responsible for payments to operate services and facilities, which are owned jointly by the Claremont institutions; however, KGI is not responsible for the indebtedness of any of the other six Claremont institutions.

[Financial Statements and Analysis on Following Page]

II. FINANCIAL STATEMENTS AND ANALYSIS:

Keck Graduate Institute Statement of Activities (Unrestricted)

	6 Month Period Ended December 31,		Fiscal Year Ended June 30,	
	<u>1999</u> (unaudited)	<u>1999</u>	<u>1998</u>	
Revenue, gains, and other support:				
Private gifts and grants	\$ 574,398	\$ 1,089,656	\$ 11,035,000	
Investment Income	186,289	713,782	225,428	
Release of temporarily restricted net assets	9,811,645	9,955,918	-	
Total income	10,572,332	11,759,356	11,260,428	
Expenses:				
Research	7,828	-	-	
Academic Support (a)	632,404	376,199	-	
Student Services (a)	227,075	75,606	-	
Institutional Support (a)	529,025	972,326	960,662	
Depreciation	113,310	-	-	
Operation of plant	37,944	-	-	
Total expenses	1,547,586	1,424,131	960,662	
Excess of revenues over expenses	9,024,746	10,335,225	10,299,766	
Other changes in net assets:				
College match of permanently restricted gift	(268,407)	-	-	
Net realized and unrealized gain (loss)	(504,674)	(17,543)	377,754	
Redesignation of net assets	-	(1,050,000)	-	
Change in unrestricted net assets	8,251,665	9,267,682	10,677,520	
Unrestricted net assets beginning of year	19,798,948	10,531,266	(146,254)	
Unrestricted net assets end of year	\$ 28,050,613	\$ 19,798,948	\$ 10,531,266	

(a) Academic support includes faculty hiring expenses, salaries and recruitment costs. Student services include the salary for the admissions officer and web page design. Lastly, institutional support includes the President's Office, planning and administration and fundraising expenses. Although KGI was not operating in fiscal year 1998 through December 31, 1999, it has incurred expenses in these categories as part of establishing a new campus.

**Keck Graduate Institute
Statements of Financial Position**

	<u>As of</u> <u>December 31,</u>	<u>As of June 30,</u>	
	<u>1999</u>	<u>1999</u>	<u>1998</u>
	(unaudited)		
Assets:			
Cash	\$ 125,744	\$ 11,323	\$ 5,410
Contributions receivable	5,616,814	14,283,350	12,451,794
Accounts receivable	91,642	-	-
Prepaid expenses and deposits	20,763	1,000,000	-
Investments	16,996,117	19,143,961	9,939,983
Plant facilities	13,530,805	939,119	666,873
Total assets	\$ 36,381,885	\$ 35,377,753	\$ 23,064,060
 Liabilities and Net Assets:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 70,953	\$ 81,311	\$ 70,000
Total liabilities	70,953	81,311	70,000
 Net assets:			
Unrestricted	28,050,613	19,798,948	10,531,266
Temporarily restricted	6,503,748	15,363,111	12,406,636
Permanently restricted	1,756,571	134,383	56,158
Total net assets	36,310,932	35,296,442	22,994,060
Total liabilities and net assets	\$ 36,381,885	\$ 35,377,753	\$ 23,064,060

Financial Ratios:

	<u>Proforma (a)</u>	<u>As of</u> <u>December 31,</u>		
	<u>FYE June 30, 1999</u>	<u>1999</u>	<u>1999</u>	<u>1998</u>
Debt Service Coverage	8.72	NA	NA	NA
Expendable Net Assets/Debt	2.58	NA	NA	NA
Expendable Net Assets/Operations		NA	NA	NA
Margin		NA	NA	NA

(a) Recalculates 1999 audited results to include the payment of this proposed financing.

Financial Discussion:

KGI is a new graduate school (affiliated with the Claremont Colleges consortium) which will enroll its first students in the 2000-2001 academic year. KGI is a brand new graduate institution, scheduled to matriculate its first class of students in August of 2000. Applications are being accepted until the class is filled and admission is being granted on a rolling basis.

KGI benefits immeasurably from its membership in the Claremont Colleges consortium. The seven Claremont Colleges share a wide range of central facilities and services. Although each college has its own student body, faculty, administration, campus, curricular emphasis, and individual style and purpose, because of their adjoining campuses, the colleges form a mutually beneficial partnership to offer joint academic programs and cross-registration in courses, to cultivate special curricular strengths on which the others may draw, to encourage contact and cooperation among faculty and students from different campuses and to combine physical facilities and extracurricular programs.

KGI has received a \$50 million grant from the W.M. Keck Foundation to fund this new graduate school specializing in applied sciences.

In July 1997, KGI received a conditional \$50 million founding grant from the W.M. Keck Foundation. The W.M. Keck Foundation was founded in 1954 as a charitable trust by William Myron Keck, the founder of Superior Oil Company, and now has assets of more than \$1.5 billion. Mr. Keck envisioned a philanthropic organization that would provide far-reaching benefits for humanity in the fields of science, engineering, natural resources, medicine and higher education. The Foundation's \$50 million grant to KGI is one of its largest grants ever for a single project. The Keck Foundation grant is payable over a five-year period, with two \$5 million increments being received in fiscal year 1997-98, one \$10 million increment received in the 1998-99 fiscal year and one \$10 million increment being received in the 1999-2000 fiscal year. Two further payments of \$10 million each are pledged for the next two fiscal years. It is anticipated that the overwhelming support of one of the nation's premier foundations will spur the interest of others (faculty, administrators, students and other donors) to join this new venture. Significant grants and pledges have also been received from individuals and foundations over the last three fiscal years.

KGI currently has over \$36 million in net assets and no debt. These net assets are expected to increase as KGI seeks additional support through its fundraising operations.

KGI has over \$36 million in net assets (including nearly \$17 million in liquid investments). If this financing is approved, it will be KGI's only long-term debt.

KGI is also seeking additional financial support through its prolific fundraising organization. Such programs include endowed faculty positions, student fellowships, research initiation, and discretionary funds; and facility construction, equipment, curriculum development and faculty research programs. Total gifts and pledges to date exceed \$66 million and over the next four to five years, KGI seeks to raise an additional \$35 to \$45 million in philanthropic support.

Projections of operating results prepared by an independent consulting group indicate a strong ability to manage the proposed debt.

Pacific Partners Consulting Group was contracted to perform a five-year financial forecast of KGI's operating budget, gift income, endowment payout, student count and tuition and financial aid. The operating budget forecast indicates an operating deficit of \$3.6 million in 1999-2000, dropping to a \$241,000 deficit in 2003-2004. However, factoring in the expected gift income, this deficit changes to a positive net income of \$12.9 million in 1999-00, dropping to a positive \$4.3 million in 2003-2004.

KGI's proforma debt service coverage ratio, based on the audited 1999 financials and factoring in the new CEFA debt, is a robust 8.72x. If the projected numbers are used, the debt service coverage ratio increases to an outstanding 12.42x. This clearly indicates that KGI has a strong ability to manage proposed debt.

III. STUDENTS, COLLEGE COSTS AND FACULTY STATISTICS:

Applications and New Enrollments

KGI has begun accepting students for its August 2000 class. Admission is competitive. Enrollment in this inaugural class will be limited to 30 students and KGI thus far has received more than 100 applications or 70 more applications than it can accommodate for enrollment, has extended 40 offers, and has 18 acceptances. An admission committee of faculty and senior administrators is reviewing each application. Applications are considered in the context of the total application pool, as well as in relationship to general admission standards. KGI does not use arbitrary grade point averages or test score cutoffs; instead it evaluates each applicant on broad based criteria.

Enrollments and Degrees

As mentioned above, initial enrollment is limited to 30 students. KGI's enrollment will eventually grow to 75 students by 2001-02, but the plan is to reach that goal slowly to ensure selective admissions. Including a small number of doctoral candidates, KGI's anticipated steady-state total enrollment will be 125 by 2003-04.

Tuition and Fees

KGI has established tuition of \$27,800 for full-time students for the 2000-01 academic year. However, in order to competitively attract students who are also applying to Ph.D. programs in science and engineering, all successful applicants who enroll in the founding class will receive full tuition fellowships for the two-year duration of the program. Within a five-year period, KGI expects to offer financial aid at the level of 25% of total tuition revenues.

Faculty

Currently, KGI has six full-time faculty members and a .2 FTE part-time faculty member. The President and Chief Academic Officer are also faculty members and are expected to teach regularly on a part-time basis, probably .2 and .5 FTE, respectively. There is one faculty member that has an MBA and the remaining have Ph.Ds. It is anticipated that two more full-time faculty members will be hired before classes begin in August of 2000 and that 2.5 FTE part-time faculty will teach during the coming academic year on an adjunct basis. The student-teacher ratio will be 4.3:1.

IV. BACKGROUND:

General: Keck Graduate Institute was founded in 1997 with a founding grant from the W.M. Keck Foundation. The primary degree offered by KGI is the professional Master of Bioscience. The full-time program begins in August, lasts two academic years and includes a three-month summer internship between the first and second years. Admission is to the fall term only.

Keck Graduate Institute and The Claremont Colleges: KGI is an independent member of the affiliated group of colleges known as The Claremont Colleges. The group consists of five undergraduate colleges (Pomona, Claremont McKenna, Harvey Mudd, Pitzer and Scripps) and two graduate institutions, the Claremont Graduate University, formerly The Claremont Graduate School, and KGI. The seven Claremont institutions jointly finance a central administration for the operation of shared programs, facilities and services, including a library system (with 1.9 million bound volumes, 57,568 periodicals and 1,304,065 microforms), a computer center, a security force, maintenance services, a chaplain's office, professionally staffed medical and counseling centers, and the Claremont Center for the Performing Arts, including Bridges Auditorium, which seats 2,500.

The seven campuses occupy contiguous campuses currently totaling 332 acres. Approximately 219 additional acres of land are set aside for future educational use. Each of the seven institutions is independent, having its own Board of Trustees, educational emphasis and tradition, faculty, student body, administrators, staff, campus buildings, and endowment. Although most of a student's courses are taken at his or her own college, a wide range of instruction is available without extra cost at the other colleges. Many of the academic programs offered by the colleges are joint or cooperative in nature, meaning that courses in particular fields (e.g., area studies, Joint Science) are offered on more than one of the Claremont campuses.

Administration: KGI is governed by a self-perpetuating Board of Trustees which consists of not less than six and no more than 30 regular trustees. The corporate powers, management and control of the affairs, business and property of KGI are vested in the Board of Trustees. Current membership of the Board stands at 11 regular members.

The Board of Trustees meets four times a year, in person and approximately six additional times by telephone. An Audit and Investment Committee of the Board oversees the Board's financial and investment affairs.

Accreditation and Affiliations: KGI is a member of the Claremont Colleges consortium in Claremont, California and its program is accredited through affiliation with Claremont Graduate University, as approved by the Western Association of Schools and Colleges. This affiliation agreement is dated October 8, 1999. For the next several years, until KGI achieves independent accreditation, the sole degree offered by the institute, the Master's of Bioscience degree, will be awarded jointly by the two institutions.

Competition: KGI is an autonomous educational institution solely dedicated to training graduate-level students in the interdisciplinary application of the life sciences. While a number of research universities are attempting to address the research opportunities which occur at the intersection of the disciplines of life sciences, mathematics, computer science, chemistry and physics, traditional faculty interests and reward structures in research universities drive them to a primary focus on research. The only degrees offered in these interdisciplinary programs are typically the Ph.D. The programs themselves are usually funded by external grants and contracts, offer few regular courses and make no faculty appointments. By contrast, KGI is focusing primarily on the professional master's degree, most appropriate for those interested in pursuing careers in industry.

The three programs with curricula closest to what is being offered at KGI are the Professional Master's Program in Biomedical Engineering at the University of Pennsylvania, and the Master's Programs in Biotechnology and Biomedical Engineering at Northwestern University.

V. OUTSTANDING DEBT:

As of December 31, 1999, KGI has no outstanding long-term debt. With this financing, the outstanding amount will be \$13.6 million.

Issue Name:	Estimated Amount Outstanding after Proposed Financing
Proposed	
Keck Graduate Institute, 2000	\$13,605,000
Total	<u>\$13,605,000</u>

VI. STAFF RECOMMENDATION: Staff recommends the Authority approve a resolution in an amount not to exceed \$13,605,000 for Keck Graduate Institute, subject to a minimum "Baa3" rating by a nationally recognized rating agency and meeting the standard bond issuance provisions for Baa rated debt.