

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

Applicant: Stanford University Stanford, California Santa Clara County	Amount Requested: \$104,000,000 Date Requested: March 29, 2001 Requested Loan Term: 31 years Resolution Number: 185
Facility Type: Private University	
Accreditations: Western Association of Schools and Colleges	

Use of Bond Proceeds: Bond proceeds will be used to fund the construction of new projects, renovations of existing facilities and a variety of infrastructure projects including steam, electric, and water systems as well as drainage improvements.

Type of Issue:	Public offering, fixed rate.
Credit Enhancement:	None
Credit Rating:	Aaa/AAA – (Moody’s and S & P) based on University credit.
Senior Underwriter:	Morgan Stanley Dean Witter
Bond Counsel:	Orrick, Herrington & Sutcliffe

Financial Overview: Stanford University is a solid organization with consistently high student demand and a strong research presence. The University continues to demonstrate extremely favorable operating performance supported by diverse revenue streams along with a strong balance sheet reflecting substantial liquidity.

<u>Consolidated Sources of Revenues (\$000)- FYE 8-31-00:</u>	<u>Amount</u>	<u>Percent</u>
(Unrestricted Funds)		
Student Income	\$279,896	12%
Sponsored research support	674,408	29%
Expendable gifts in support of operations	113,187	5%
Investment income	515,204	22%
Health Care Services	460,084	20%
Other income	263,918	12%
Total revenue	<u>\$2,306,697</u>	<u>100%</u>

<u>Estimated Sources of Funds (\$000):</u>		<u>Estimated Uses of Funds (\$000):</u>	
Bond Proceeds	\$104,000	Construction and renovation	\$103,099
		Financing Costs	901
Total Sources	<u>\$104,000</u>	Total Uses	<u>\$104,000</u>

Staff Recommendation: Staff recommends the Authority approve a resolution in an amount not to exceed \$104,000,000 for Stanford University, which meets the standard bond issuance guidelines for “A” or better rated debt.

**STAFF SUMMARY AND RECOMMENDATION
BOND FINANCING PROGRAM**

March 29, 2001
Resolution Number: 185

STANFORD UNIVERSITY (the "University")

- I. PURPOSE OF FINANCING:** The University makes a significant investment in its facilities for teaching, research and related activities through a Capital Plan which is reviewed annually by the Board of Trustees. This results in a three-year plan, which includes projects that are in progress or will commence during that three-year period. It is subject to change based on funding availability and University priorities. In December 2000, the Santa Clara County Board of Supervisors approved the General Use Permit (the "2000 GUP") and the Stanford University Community Plan (the "Community Plan") which govern the University's use and development of University lands within the county for at least ten years. The combined 2000 GUP and the Community Plan allow Stanford to develop approximately 2 million net square feet of new academic facilities and approximately 3,000 new housing units for students, faculty, and staff, while preserving open space and natural resources.

The University's capital improvement projects proposed in this financing include new construction that will meet the current shortage and increased demand for housing, provide needed library shelving capacity, and meet fire hazard protection. In addition, seismic upgrades and strengthening are necessary, infrastructure for water, steam, electric, and drainage systems as well as other improvements.

For fiscal 2001, the University anticipates spending \$295 million for capital improvement projects, which includes this proposed financing. The remaining sources of funds will be gifts, university funds, and issuance of additional debt, including \$50 million taxable medium term notes apart from this proposed financing.

Uses of Funds:

▪ **Construction/Renovation \$103,098,644**

- ◆ Housing Projects and Dining – The existing graduate housing system is full and there is also a shortage in undergraduate housing. The off-campus housing market is expensive with a low vacancy rate, and in general is not a viable option for many Stanford graduate students. To satisfy the housing requirements, the University has embarked on a residential building program with 508 units completed last year. There are approximately 2,000 new graduate units being planned for Escondido Village, three new row houses with 150 beds at Mayfield Undergraduate Row Houses, and 125 beds for undergraduate housing at Manzanita, as well as an enlargement to Manzanita dining hall.

- ◆ Academic Facilities and Infrastructure – New buildings and renovations to existing facilities are planned including: completion of seismic retrofitting and systems updating of academic and support buildings; systems upgrades of various existing classroom, library, laboratory, and student activity facilities; construction of several major new academic and research facilities including the James H. Clark Center for Biomedical Engineering and Sciences, the Mechanical Engineering Laboratory and the Photonics Center; projects involving internal utility systems; and parking and campus transportation projects.

▪ **Financing costs 901,356**
Costs of Issuance\$289,100
Underwriters Discount612,256

Total Uses of Funds \$104,000,000

Financing Structure:

- Negotiated Public offering
- Fixed interest rate.
- 31 year maturity with final maturity in 2032.
- Expected Aaa/AAA – (Moody’s and S & P) ratings.

II. FINANCIAL STATEMENTS AND ANALYSIS:

STANFORD UNIVERSITY

Consolidated Statement of Activities
Unrestricted (000's)

	Fiscal Year Ended August 31,		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Revenues:			
Student Income	\$ 279,896	\$ 268,178	\$ 265,686
Sponsored research support	674,408	633,618	635,545
Expendable gifts in support of operations	113,187	97,412	77,629
Investment income	515,204	402,817	264,280
Health Care Services	460,084	155,120	-
Other income	206,427	158,467	281,075
Net assets released from restrictions	57,491	32,931	34,158
Total revenues	<u>2,306,697</u>	<u>1,748,543</u>	<u>1,558,373</u>
Expenses:			
Salaries and benefits	1,067,250	808,661	596,089
Depreciation	194,279	112,093	91,149
Stanford Linear Accelerator Center	179,892	170,660	187,160
Institutional support	469,213	293,580	287,617
Other operating expenses	217,228	214,541	315,281
Total expenses	<u>2,127,862</u>	<u>1,599,535</u>	<u>1,477,296</u>
Excess of revenues over expenses	178,835	149,008	81,077
Other changes in unrestricted net assets			
Reinvested endowment gains	1,966,599	1,128,604	(93,647)
Other changes	148,804	163,569	126,671
Net change in unrestricted net assets	<u>2,294,238</u>	<u>1,441,181</u>	<u>114,101</u>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>6,719,835</u>	<u>5,278,654</u>	<u>5,164,553</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 9,014,073</u>	<u>\$ 6,719,835</u>	<u>\$ 5,278,654</u>

STANFORD UNIVERSITY
Statement of Financial Position (000's)

	As of August 31		
	2000	1999	1998
ASSETS:			
Cash and cash equivalents	\$ 533,666	\$ 488,932	\$ 725,922
Accounts receivable	543,665	208,155	150,523
Inventories, prepaid expenses	82,461	50,535	31,853
Pledges receivable	481,497	177,101	172,305
Student loans receivable	74,693	73,851	71,117
Other loans receivable (principally faculty mortgages)	173,147	141,332	112,344
Investments at fair value	10,797,136	7,807,177	6,052,372
Net assets of related health care entities	20,063	451,613	476,431
Plant facilities, net of accumulated depreciation	2,215,027	1,718,430	1,498,329
TOTAL ASSETS	\$ 14,921,355	\$ 11,117,126	\$ 9,291,196
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable and accrued expenses	\$ 750,803	\$ 424,540	\$ 361,307
Liabilities under security agreements	358,441	343,015	382,679
Income beneficiary share of living trust investments	258,100	237,196	253,644
Notes and bonds payable	1,379,919	1,126,293	960,951
U.S. Government refundable loan funds	49,312	48,418	47,219
TOTAL LIABILITIES	2,796,575	2,179,462	2,005,800
Net assets:			
Unrestricted:			
Designated for operations	1,324,750	918,666	791,423
Investment in plant facilities	1,157,488	1,023,620	915,883
Endowment gains and funds functioning as endowment	6,511,772	4,325,936	3,094,917
Investment in UCSF Stanford Health Care	20,063	451,613	476,431
Total Unrestricted	9,014,073	6,719,835	5,278,654
Temporarily Restricted	503,824	289,012	318,941
Permanently Restricted	2,606,883	1,928,817	1,687,801
TOTAL NET ASSETS	12,124,780	8,937,664	7,285,396
TOTAL LIABILITIES AND NET ASSETS	\$ 14,921,355	\$ 11,117,126	\$ 9,291,196

Financial Ratios:

	Proforma (a) YE Aug 31, 2000	2000	1999	1998
Debt service coverage	25.89	27.34	21.27	2.57
Debt to expendable net assets	0.16	0.14	0.16	0.17
Expendable net assets to operations		4.47	4.38	3.79
Margin		7.8%	8.5%	5.2%

(a) Recalculates 2000 audited results to include the payment of this proposed financing.

Financial Discussion:

Stanford University is a solid organization with consistently high student demand and a strong research presence.

The University is considered one of the nation's most prestigious universities maintaining a leading market position, exceptionally strong student demand, and an array of programs. Among the most selective universities, Stanford accepts approximately 15% of its freshman applicants and its strong yield of over 65% indicates that it is the first choice for a nationally diversified student population. Approximately half of Stanford's over 14,000 students are undergraduates. The University maintains a broad array of commensurately strong graduate and professional programs. Its programmatic mix combined with the high demand for its programs contributes to a healthy net tuition per student of over \$16,500.

In addition, Stanford is one of the nation's leading research universities and its well-established research programs should continue to contribute to ongoing steady support from a variety of sponsors. Research revenues are the University's largest single revenue component, contributing approximately 30% of the University's revenue.

The University continues to demonstrate extremely favorable operating performance supported by diverse revenue streams along with a strong balance sheet reflecting substantial liquidity.

Total University assets in fiscal 2000 increased to \$14.9 billion while total University liabilities increased to \$2.8 billion. The University maintains a large portfolio of liquid investments and a relatively low level of debt, with 0.14 as its most recent debt-to-expendable net assets ratio. The University's unrestricted net assets increased \$1.4 billion in fiscal 1999 and \$2.3 billion in fiscal 2000. The increase in net assets is directly attributable to unparalleled investment performance along with record-level gifts and pledges. The University's revenue stream remains highly diversified with its academic operations generating a strong margin and debt service coverage of over 27 times in fiscal 2000. The University's superior financial strength is further demonstrated by the pro forma debt service coverage, which would remain solid (almost 26 times) with this proposed financing.

In 1997, Stanford Health Services merged with UCSF Medical Center to form UCSF-Stanford Health Care. With volatility in the health care marketplace and declining government reimbursement, management tried to confront these challenges but the merger dissolved effective March 31, 2000. Following the dissolution of the two entities, operating losses were recorded and split evenly. The University's share of the loss had no material impact on its financial performance.

III. STUDENTS, COLLEGE COSTS, AND FACULTY STATISTICS:

Applicant Pool

As one of the nation's most prestigious universities, Stanford attracts large numbers of highly qualified applicants for admission to its undergraduate and graduate programs. This provides assurance that the University can easily maintain stability of enrollment. For the academic year 2000-01, the University enrolled 6,548 undergraduate and 6,779 graduate students. During FY 1999, 1,737 bachelor degrees and 2,904 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)*

Fall Semester	Applications	Offered Admission	Selectivity Ratio	New Enrollments
1996	17,545	2,833	16.1%	1,754
1997	18,068	2,769	15.3%	1,778
1998	20,218	2,630	13.0%	1,702
1999	19,221	2,718	14.1%	1,770
2000	19,580	2,538	13.0%	1,679

* Headcount, not full-time equivalent

Graduate Programs *

Fall Semester	Applications	Offered Admission	Selectivity Ratio	New Enrollments
1996	28,157	4,335	15.4%	2,153
1997	27,924	4,480	16.0%	2,323
1998	28,865	4,601	15.9%	2,376
1999	28,295	4,525	16.0%	2,387
2000	27,095	4,422	16.3%	2,288

* Headcount, not full-time equivalent

Enrollments and Degrees

Similar to new enrollments, total enrollments remained fairly constant over the past five years. Accordingly, the number of degrees awarded remained fairly constant as well.

Academic Year	Undergraduate FTE	Graduate FTE	Total FTE	Bachelor	Graduate	Total FTE Enrollment
1996-97	6,550	6,358	12,908	1,704	2,735	4,439
1997-98	6,639	6,440	13,079	1,694	2,863	4,557
1998-99	6,591	6,556	13,147	1,687	2,909	4,596
1999-00	6,594	6,679	13,273	1,737	2,904	4,641
2000-01	6,548	6,779	13,327	n.a.	n.a.	n.a.

Undergraduate Tuition, Fees, Room and Board

The University's tuition, room, board and fees for a full-time student for 2000-01 is \$32,471. A five-year summary of comprehensive fees is provided below. Total cost has increased an average of 3.5% per year over the last 5 years.

Academic Year	Undergraduate Tuition and Fees	Room and Board	Undergraduate Total
1996-97	\$20,940	\$7,340	\$27,830
1997-98	\$21,300	\$7,560	\$28,860
1998-99	\$22,110	\$7,769	\$29,879
1999-00	\$23,058	\$7,881	\$30,939
2000-01	\$24,441	\$8,030	\$32,471

Faculty Summary

The total number of faculty has increased modestly in the last decade. The following table provides a breakdown of the faculty for each of the last 5 academic years.

Academic Year	Tenured Full Time	Other Full Time	Part Time FTE	Total FTE
1996-97	836	614	17.65	1,467.65
1997-98	917	582	17.36	1,516.36
1998-99	927	628	18.69	1,573.69
1999-00	934	667	16.73	1,617.73
2000-01	922	716	16.44	1,654.44

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.

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. Current membership of the Board is 32. The Board is responsible for determining policies for operation and control of the University including, among other things, the adoption of the University budget, establishment of schools and departments, investment and accounting policies, debt policy and land use and development. The Board conducts its business through seven standing committees, including the Committees on Finance, Development, Audit, Academic Policy, Land and Buildings, Alumni and External Affairs and the Medical Center. The Board nominates and selects its successors, eight of whom shall be alumni Trustees.

The Stanford Management Company ("SMC") was established in 1991 to manage all financial and real estate investment assets of the University. In addition to providing investment management services, SMC is responsible for special investment-related activities such as securities lending, and selection, liaison and oversight of custodians. SMC assists in the management of the University's debt portfolio and oversees several trusts and investment entities established by the Board.

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 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. The following undergraduate curricula are accredited at the University: Chemical Engineering, Civil Engineering, Electrical Engineering, Industrial Engineering and Mechanical Engineering.

Academic Programs:

Stanford 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 arts, humanities, sciences and social sciences) offer both undergraduate and graduate degree programs. The Schools of Business, Education, Law and Medicine offer graduate and professional degree programs. Undergraduate students are admitted to the University and have access to any undergraduate major 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.

Stanford's research enterprise extends throughout the University. In addition to research conducted in the Schools, Stanford has a number of interdisciplinary research institutes and centers which bring together faculty and students from throughout the University to collaborate on research topics that cross traditional boundaries. A representative sample includes the Stanford Linear Accelerator Center, the Hansen Experimental Physics Laboratory, the Stanford Humanities Center, the Center for Computer Research in Music and Acoustics, the Center for Integrated Systems, the Institute for International Studies and the Center for Economic Policy Research. Extensive library and archival resources are available through the Stanford University Libraries and the Hoover Institution on War, Revolution and Peace.

Competition:

Student quality is extremely high and Stanford remains one of the most selective universities in the nation. The University's applications overlap mostly with prominent Ivy League institutions on the East Coast specifically, Harvard, Yale, Princeton and MIT. The University tuition is generally set somewhat below these institutions.

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

<u>Issue:</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 8/31/00</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing:			
CEFA Revenue Bonds – Series B, I, J, K, L 1-7, M, N, O, P	\$811,693	\$642,053	\$642,053
Department of Education Bonds	20,816	3,913	3,913
Stanford University Bonds	150,000	150,000	150,000
Notes	104,100	100,000	100,000
Commercial Paper	N/A	156,116	156,116
Other, with various interest rates	N/A	93,166 ⁽¹⁾	93,166
CHFFA Hospital Bonds	193,895	191,475	191,475
Certificates of Participation	N/A	43,196	43,196
Proposed:			
Taxable Medium Term Note			50,000 ⁽²⁾
CEFA, Series Q			<u>104,000</u>
Total		<u>\$1,379,919</u>	<u>\$1,533,919</u>

N/A – Not applicable

⁽¹⁾ Represents primarily the debts of wholly owned real estate investments.

⁽²⁾ Stanford plans to simultaneously issue taxable medium term notes unrelated to this proposed financing.

VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution in an amount not to exceed \$104,000,000 for Stanford University, which meets the standard bond issuance guidelines for “A” or better rated debt.