

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

<p>Applicant: Claremont McKenna College (“CMC”) Claremont, California Los Angeles County</p> <p>Facility Type: Private University</p> <p>Accreditations: Western Association of Schools and Colleges</p>	<p>Amount Requested: \$10,750,000</p> <p>Loan Term: 30 Years</p> <p>Date Requested: May 29, 2003</p> <p>Final Resolution Number: 211</p>																											
<p>Use of Bond Proceeds: Bond proceeds will be used to construct and renovate various facilities throughout the campus. In addition, CMC seeks reimbursement of prior expenditures for the acquisition and renovation of the Claremont Boulevard property that is earmarked for future college office space.</p>																												
<p>Type of Issue: Public offering, fixed rate</p> <p>Credit Enhancement: None</p> <p>Expected Rating: Aa1 (Moody’s)</p> <p>Senior Underwriter: Prager, Sealy & Company LLC</p> <p>Bond Counsel: Orrick Herrington & Sutcliffe LLP</p>																												
<p>Financial Overview: CMC has generated positive operating results during the past three fiscal years supported by higher student revenues. However, CMC experienced an overall loss in its net assets due to volatile financial market conditions, which generated significant losses on its investments. Although investment losses have been significant, CMC’s balance sheet remains strong with significant financial resources and minimal long-term debt.</p>																												
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<p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																												
<p>Recommendation: Staff recommends the Authority approve a resolution in an amount not to exceed \$10,750,000 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.</p>																												

STAFF SUMMARY AND RECOMMENDATION

Claremont McKenna College (“CMC”)

May 29, 2003

Final Resolution Number: 211

- I. PURPOSE OF FINANCING:** Bond proceeds will be used to construct and renovate various facilities throughout the campus. In addition, CMC will seek reimbursement of prior expenditures for the acquisition and renovation of the Claremont Boulevard property that is earmarked for future college office space.

Construction, renovation and acquisition of various campus facilities\$12,435,000

CMC plans to construct, renovate, furnish and equip certain residence halls, a dining facility, an academic building, an administrative building, faculty/staff housing, parking facilities, and a sports complex. CMC also will relocate and improve certain properties and install fire sprinklers in dormitories. The allocation of costs are estimated to be as follows:

Construction and renovation of North Quad.....	\$4,958,000
Expansion and renovation of Claremont Boulevard.....	3,944,000
Reimbursement of prior expenditures.....	1,226,000
Harwood Place extension.....	646,000
Fire sprinklers in other dormitories	500,000
Collins Dining Hall renovation.....	400,000
Sixth Street parking lot	355,000
Benson and Marks fire sprinklers	313,000
Fawcett Hall fire suppression system	93,000

Financing Costs 272,028

Underwriters Discount	\$178,100
Cost of Issuance	90,625
Contingency	3,303

Total \$12,707,028

Financing Structure:

- \$10,750,000 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,		
	2002	2001	2000
Revenues:			
Net student revenues	\$ 24,774	\$ 22,073	\$ 20,841
Private gifts and grants	4,168	4,164	4,612
Federal grants	460	343	421
Private contracts	395	465	580
Investment income designated for operations*	17,785	16,397	14,683
Other revenue	1,160	999	1,123
Net assets released from restrictions	4,997	3,689	3,839
Total revenues	53,739	48,130	46,099
Expenses:			
Instruction	16,247	14,586	12,784
Research	3,589	3,198	2,803
Academic support	3,981	3,695	3,740
Student services	8,318	7,943	7,123
Institutional support	9,488	9,518	8,858
Auxiliary enterprises	7,911	7,550	6,465
Total expenses	49,534	46,490	41,773
Revenues over expenses	4,205	1,640	4,326
Other changes in net assets			
Realized and unrealized losses, net of allocation to operations	(85,664)	(135,512)	85,455
Net assets released for capital projects	-	-	1,412
Matured annuity and life income agreements	6,049	2,086	588
Transfers to other Claremont Colleges	(571)	(507)	(761)
Staff retirement plan comprehensive loss	(256)	-	-
Transfers and redesignations between net asset categories	55	(951)	(86)
Change in net assets	(76,182)	(133,244)	90,934
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	282,711	415,955	325,021
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 206,529	\$ 282,711	\$ 415,955

*Board of Trustees has adopted a spending policy for pooled investments whereby the amount of investment return available for current operations is determined by applying a set percentage (5.0% in 2002 and 2001) of the values of pooled investments to determine the amount of investment return available for current operations. If the ordinary income portion of pooled investments return is insufficient to provide the full amount of investment return specified, the balance may be appropriated from realized gains of the pooled investments. June 30, 2002 and 2001, these cumulative net realized gains available for appropriation under CMC's spending policy total approximately \$95,155,000 and \$156,370,000, respectively.

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

	As of June 30,		
	2002	2001	2000
ASSETS:			
Cash	\$ 813	\$ 559	\$ 2,909
Accounts and other receivables, net	13,421	11,905	10,064
Contributions receivable, net	8,762	11,912	13,619
Contributions receivable from revocable trust	7,259	-	-
Investments	383,318	480,296	585,259
Prepaid expenses and deposits	565	353	239
Plant facilities, net	58,160	59,101	55,185
TOTAL ASSETS	\$ 472,298	\$ 564,126	\$ 667,275
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 2,277	\$ 1,640	\$ 2,685
Obligations under securities lending program	20,682	39,550	-
Deposits and deferred revenues	587	502	466
Life income and annuities payable	37,133	37,155	40,151
Bonds and notes payable	24,057	25,017	25,100
Government advances for student loans	2,693	2,565	2,418
Refundable advances from revocable trusts	7,259	-	-
TOTAL LIABILITIES	94,688	106,429	70,820
Net assets:			
Unrestricted	206,529	282,711	415,955
Temporarily restricted	20,549	23,823	30,621
Permanently restricted	150,532	151,163	149,879
TOTAL NET ASSETS	377,610	457,697	596,455
TOTAL LIABILITIES AND NET ASSETS	\$ 472,298	\$ 564,126	\$ 667,275

Financial Ratios:

	Proforma (a)			
	FYE June 30, 2002			
Debt service coverage (x)	3.49	4.73	3.18	3.52
Debt to expendable net assets (x)	0.15	0.11	0.08	0.06
Expendable net assets to operations (x)		3.45	3.76	4.32
Margin (%)		6.78%	3.41%	9.38%

(a) Recalculates 2002 results to include the impact of this proposed financing.

Financial Discussion:

CMC has generated positive operating results during the past three fiscal years supported by higher student revenues. However, CMC did experience an overall loss in its net assets due to volatile financial market conditions, which generated significant losses on its investments.

Operating profits have remained positive due to this increase in net student revenues. Operating profits range from \$1.6M to \$4.3M during our review period.

CMC's operating surplus is a result of consistent student enrollment combined with increasing tuition and fees. While enrollment has been flat over our review period, tuition and fees have increased by a strong 8% per annum. This increase has resulted in net student revenues jumping from \$20.8M in FY 2000 to \$24.7M in FY 2002. CMC's student revenues comprise only 46% of the total revenue sources. The other revenues sources such as private gifts/grants, federal grants, private contracts, investment income designated for operations, other revenue, and net assets released from restrictions have also increased by approximately 8% per annum during our review period. CMC is dependent upon these "other" revenue sources, however, this provides CMC with a diversified revenue base, which reduces risk since it is less dependent upon any one revenue source.

The most notable change in CMC's financial condition during FY 2001 and FY 2002 relates to non-operating line items, specifically sizeable losses on its investment portfolio. These losses relate mostly to the sustained decline in the equity securities owned by CMC during this period. These losses, net of the allocation to operations were \$135M and \$85M during fiscal years 2001 and 2002 respectively, compared to a gain of \$85M in FY 2000. Total investments as shown on the balance sheet dropped in value from \$585M in FY 2000 to \$383M in FY 2002. CMC's current investment portfolio consists of 14% cash, 63% marketable securities, 22% limited partnerships, and 1% real estate and other assets.

Although investment losses have been significant, CMC's balance sheet remains strong with significant financial resources and minimal long-term debt.

CMC has seen its net assets decline from \$568M to \$377M from fiscal year 2000 to 2002. This is mostly due to losses on non-operating investments, as indicated above. CMC still maintains significant financial resources in comparison to its long-term debt of only \$24M. In addition, the proposed debt service coverage remains a strong 3.49x indicating that CMC should be able to handle the proposed debt payments comfortably.

III. STUDENTS, COLLEGE COSTS AND FACULTY STATISTICS:

Applications, Admissions and Matriculations

The following table presents information about freshman and transfer applications, admissions and matriculations to CMC for the academic years indicated.

<i>Freshmen</i>			
<u>Academic Year</u>	<u>Applications</u>	<u>Admissions</u>	<u>Matriculations</u>
1998-1999	3,046	839	276
1999-2000	2,827	785	253
2000-2001	3,043	850	264
2001-2002	2,898	829	262
2002-2003	2,918	814	250

<i>Transfers</i>			
<u>Academic Year</u>	<u>Applications</u>	<u>Admissions</u>	<u>Matriculations</u>
1998-1999	166	44	27
1999-2000	165	49	29
2000-2001	164	65	32
2001-2002	198	99	70
2002-2003	174	55	36

FTE Enrollments and Degrees

The following table provides student enrollment and the number of degrees conferred at CMC for the current and four most recent academic years.

ENROLLMENTS AND DEGREES

<u>Academic Year</u>	<u>Full Time Equivalent Student Enrollments*</u>	<u>Degrees Awarded</u>
1998-1999	1,021	275
1999-2000	1,014	261
2000-2001	1,004	253
2001-2002	1,041	271
2002-2003	1,009	288

*FTE student enrollments are computed such that each student enrolled in at least three courses in a semester is counted as one FTE student. Each student enrolled in less than three courses in a semester is counted as a fraction of an FTE student equal to the number of courses enrolled divided by three.

The strategic plan completed in 2002 reaffirms CMC's desire to maintain FTE student enrollments at approximately 1000 students for the foreseeable future. CMC's retention of its students is among the highest in the nation. Approximately 86 percent of the CMC freshman students in the class that matriculated in the fall of 1997 graduated within five years of entering CMC.

Tuition, Fees and Room and Board Charges

Tuition, fees and room and board charges for full-time CMC students for the 2002-2003 academic year total an average of \$35,090. Students generally are required to live on campus, and most students dine in CMC facilities. While room rentals and meal plans vary, students residing in dormitories during the 2002-2003 academic year will pay an average of \$4,370 per semester for room and board.

A summary of tuition, fees and room and board charges for the current and four most recent academic years is provided below:

TUITION, FEES AND ROOM AND BOARD CHARGES

<u>Academic Year</u>	<u>Tuition and Fees</u>	<u>Room and Board</u>	<u>Total</u>
1998-1999	\$19,960	\$6,890	\$26,850
1999-2000	\$20,760	\$7,060	\$27,820
2000-2001	\$22,580	\$7,420	\$30,000
2001-2002	\$24,540	\$8,160	\$32,700
2002-2003	\$26,350	\$8,740	\$35,090

Faculty and Staff

As of October 1, 2002, CMC had 107.1 current full time equivalent (“FTE”) faculty. The following table provides a breakdown of the faculty for the current and four most recent academic years. Figures shown in the table are complete as of the fall semester for each year.

FACULTY

<u>Academic Year</u>	<u>FTE full-time faculty</u>	<u>FTE Part-time faculty</u>	<u>FTE Faculty</u>
1998-1999	84.0	7.4	91.4
1999-2000	88.0	6.8	94.8
2000-2001	93.0	9.6	102.6
2001-2002	95.0	12.0	107.0
2002-2003	97.0	10.1	107.1

CMC’s student-faculty ratio is 9-1 (based on FTE students and FTE faculty) for the 2002-2003 academic year. Although faculty members regard teaching as their primary function, all are engaged in research or creative work. One hundred percent of faculty on tenure track hold doctoral degrees. The full-time faculty consists of 45 full professors, 17 associate professors, 28 assistant professors, six instructors and one lecturer. Sixty-four percent of the full-time faculty are tenured.

CMC employs approximately 400 employees. These employees are not represented by a union.

IV. BACKGROUND:

General: 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 40 regular voting members, three alumni voting trustees, two ex-officio voting members, and 17 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, who each 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 17 separate majors in nine departments, nine interdisciplinary majors in a number of areas, and an independent pattern of study and combined plan programs in liberal arts. Students may graduate with a single, dual, double or individualized major, or may also choose an off-campus major at another of The Claremont Colleges.

Competition:

CMC's principal competitors are:

<u>Institution Name</u>	<u>Location</u>
Pomona College	Claremont, California
UC Berkeley	Berkeley, California
UCLA	Los Angeles, California
Santa Clara University	Santa Clara, California
Stanford University	Palo Alto, California
University of Southern California	Los Angeles, California
Loyola Marymount University	Los Angeles, California
UC San Diego	San Diego, California

V. OUTSTANDING DEBT (000s):

<u>Issue Name:</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 6/30/02</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing			
CEFA Series 1995A	\$2,385	\$1,755	\$1,755
CEFA Series 1999	24,000	22,770	22,770
Proposed			
CEFA Series 2003			10,750
Totals		<u>\$24,525</u>	<u>\$35,275</u>

VI. LEGAL REVIEW:

Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution in an amount not to exceed \$10,750,000 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.