

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

Applicant:	Harvey Mudd College (“HMC”) Claremont, California Los Angeles County	Amount Requested:	\$7,500,000
Facility Type:	Private University	Loan Term:	30 Years
Accreditations:	Western Association of Schools and Colleges Accreditation Board for Engineering and Technology	Date Requested:	May 29, 2003
		Final Resolution Number:	212

Use of Bond Proceeds: Bond proceeds will be used to refinance the CEFA Series 1993 bonds, which will result in a net present value savings of approximately \$494,000. Bond proceeds will also be used to construct a dormitory building and mini central plant.

Type of Issue:	Public offering, fixed rate
Credit Enhancement:	None
Expected Rating:	A1 (Moody’s)
Senior Underwriter:	Prager, Sealy & Company LLC
Bond Counsel:	Orrick Herrington & Sutcliffe LLP

Financial Overview: HMC has generated positive operating results during the past three fiscal years supported by higher student revenues. However, HMC did experience an overall loss in its net assets due to volatile financial market conditions, which generated moderate losses on its investments. HMC’s balance sheet is strong, with significant financial resources and minimal long-term debt.

<u>Sources of Revenue (000s) (FYE 6/30/02)</u>	<u>Amount</u>	<u>Percent of Total</u>
Net student revenues	\$18,137	49.5%
Investment returns allocated to operations	7,762	21.2%
Private gifts and grants	5,691	15.5%
Federal grants	2,152	5.9%
Private contracts	1,987	5.4%
Other revenue	1,144	3.1%
Release of temporarily restricted net assets	69	0.1%
Loss on other investments	(279)	(0.7%)
Total	<u>\$36,663</u>	<u>100%</u>

<u>Sources of Funds:</u>		<u>Uses of Funds:</u>	
Bond proceeds	\$7,500,000	Refinance CEFA 1993 bonds	\$6,158,000
Equity contribution	62,000	Construction	1,200,000
		Financing costs	<u>204,000</u>
Total Sources	<u>\$7,562,000</u>	Total Uses	<u>\$7,562,000</u>

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Recommendation: Staff recommends the Authority approve a resolution in an amount not to exceed \$7,500,000 for Harvey Mudd 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

Harvey Mudd College (“HMC”)

May 29, 2003

Final Resolution Number: 212

I. PURPOSE OF FINANCING: HMC plans to take advantage of a historical low fixed interest rate environment and refinance its 1993 CEFA bonds. In addition, HMC plans to construct a dormitory building for students along with a mini central plant that will provide a source of heating and cooling for the Platt Campus Center and the new Dining Commons.

Refinance CEFA Series 1993 bonds\$6,158,000

HMC plans to refinance the existing CEFA Series 1993 bonds. This refinance will result in an overall savings of \$584,000. The current interest rates on the existing bonds range from 5.5% to 6.1% with a final maturity of 2014. The proposed financing is expected to result in interest rates ranging from 1.2% to 3.85%, also due in 2014, thus providing the college with a net present value savings of \$494,000 or 8.65% of the 1993 bonds.

Construct a dormitory building and a mini central plant 1,200,000

Dormitory Building\$800,000

The new Frederick and Susan Sontag Residence Hall will house 77 students in an area of approximately 30,000 square feet. The location is on the northern frontage of Foothill Boulevard, just north of the existing Atwood Dormitory.

Mini Central Plant400,000

The new Mini Central Plant will provide heating and cooling for the existing Platt Campus Center and new Dining Commons. The facility will consist of a chilled water system, heating hot water system and utility infrastructure, and will be located in and adjacent to the Platt Campus Center and Dining Commons.

Financing Costs 204,000

Underwriter’s discount \$63,100

Cost of issuance 140,485

Contingency415

Total..... \$7,562,000

Financing Structure:

- \$7,500,000 total par value
- General obligation pledge
- Expected rating: A1 (Moody's)
- Fixed interest rates
- Negotiated public offering
- Up to 30 year maturity, serial and term bonds

II. FINANCIAL STATEMENTS AND ANALYSIS:

Harvey Mudd College

Statement of Activities Unrestricted (000's)

	Fiscal Year Ended June 30,		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Revenues and release of net assets			
Net student revenues	\$ 18,137	\$ 17,084	\$ 15,744
Federal grants	2,152	1,985	1,876
Private gifts and grants	5,691	3,647	3,425
Private contracts	1,987	2,020	1,976
Investment returns allocated to operations	7,762	7,719	7,061
Gain/(loss) on other investments	(279)	(233)	100
Other revenue	1,144	884	865
Release of temporarily restricted net assets	69	323	835
Total revenues and release of net assets	<u>36,663</u>	<u>33,429</u>	<u>31,882</u>
Expenses:			
Instruction	13,144	12,258	12,416
Research	1,593	1,658	1,754
Public service	1,654	1,511	1,482
Academic support	4,084	3,531	3,452
Student services	3,049	2,882	2,684
Institutional support	4,919	4,628	4,366
Auxiliary enterprises	6,317	6,202	5,311
Total expenses	<u>34,760</u>	<u>32,670</u>	<u>31,465</u>
Excess revenues over expenses	1,903	759	417
Other changes in net assets			
Pooled investment gains/(losses), net of allocation to operations	(10,947)	4,022	(7,463)
Other comprehensive pension expense	(203)	-	-
Transfers to other Claremont Colleges	(482)	(432)	(188)
Change in net unrestricted assets	(9,729)	4,349	(7,234)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>139,719</u>	<u>135,370</u>	<u>142,604</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 129,990</u>	<u>\$ 139,719</u>	<u>\$ 135,370</u>

Harvey Mudd College
Statement of Financial Position (000's)

	As of June 30,		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
ASSETS:			
Cash	\$ 377	\$ 505	\$ 221
Prepaid expenses, deposits and other	294	126	354
Contributions receivable, net	3,375	3,267	2,462
Accounts and other receivables, net	4,665	5,153	3,845
Investments	189,208	195,572	187,786
Plant facilities	36,585	37,455	38,640
Funds held in trust for others	327	309	302
TOTAL ASSETS	<u>\$ 234,831</u>	<u>\$ 242,387</u>	<u>\$ 233,610</u>
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 2,384	\$ 2,234	\$ 1,523
Deposit and deferred revenues	2,059	1,775	1,438
Life income and annuities payable	9,701	10,189	11,189
Bonds payable	9,834	10,491	11,115
Government advances for student loans	2,506	2,393	2,271
Funds held in trust for others	370	352	346
TOTAL LIABILITIES	<u>26,854</u>	<u>27,434</u>	<u>27,882</u>
Net assets:			
Unrestricted	129,990	139,719	135,370
Temporarily restricted	7,283	8,017	8,811
Permanently restricted	70,704	67,217	61,547
TOTAL NET ASSETS	<u>207,977</u>	<u>214,953</u>	<u>205,728</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 234,831</u>	<u>\$ 242,387</u>	<u>\$ 233,610</u>

Financial Ratios:

	<u>Proforma (a)</u>			
	<u>FYE June 30, 2002</u>			
Debt service coverage (x)	3.06	3.26	2.34	2.21
Debt to expendable net assets (x)	0.13	0.07	0.07	0.08
Expendable net assets to operations (x)		3.95	4.52	4.58
Margin (%)		5.19%	2.61%	1.31%

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

Financial Discussion:

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

HMC has posted positive operating results over the past five fiscal years. These positive earnings have been a result of higher revenues generated from a diversified revenue base. First and foremost, student revenues have increased from \$15.7M in FY 2000 to \$18.0M in FY 2002, a strong 15% increase. The increase in student revenues is a direct result of higher tuition fees and room and board. Student enrollment has remained steady during this period.

In addition to higher student revenues, HMC has been successful in obtaining higher federal grants, private gifts and grants, private contracts, and investment returns allocated to operations during our review period. These higher “other” revenue sources provide a diversified revenue base and help support HMC profitability.

The operating profits have ranged from \$417k to \$1.9M, resulting in operating margins of 1.3% to 5.2%.

Unfortunately, these positive operational results have been more than offset by HMC’s non-operational losses, specifically investment losses. Investment losses were common amongst other colleges and universities and are a result of volatile financial market conditions, specifically the equity markets. The college had \$189 million in total investments as of June 30, 2002. The allocation of these investments were approximately 14% in mutual funds, 47% in stocks, 25% in US Government securities, 12% in corporate bonds, and 2% in other investments. These allocations were similar to those maintained by HMC in the prior fiscal year. It should be noted that of the \$10.9M in investment losses experienced in fiscal year 2002, only \$1.6 million were realized losses, while the others were unrealized losses.

HMC balance sheet is strong, with significant financial resources and minimal long-term debt.

HMC balance sheet exhibits strength. Even its large investment losses, HMC has generally been able to maintain its total net assets base from fiscal year 2000 to 2002. During fiscal years 2000, 2001 and 2002, net assets fluctuated due to unrealized investment gains and losses created by volatility in the financial markets. During fiscal year 2000, net assets decreased by \$5.7 million to \$206 million.

HMC has minimal long-term debt as exhibited by its ratio of debt compared to unrestricted net asset, which is a very low .07x. This indicates that HMC’s management has maintained a very conservative, low risk debt issuance policy, given its financial

resources. The proposed financing results in minimal additional long-term debt, since a large portion of the proposed new bonds are being used to refinance existing CEFA bonds. The proposed debt service coverage is a strong 2.23x, indicating HMC's ability to comfortably service the proposed debt.

III. STUDENTS, COLLEGE COSTS AND FACULTY STATISTICS:

Applications, Admissions and Matriculations

The 2002-2003 entering freshmen class of 187 was selected from a pool of 1,669 applicants. The fall entering freshmen class had 107 representatives from other states, seven from foreign countries, and 73 from California.

The following tables present applicant pool information for HMC for the academic years shown below, including number of applications, admission offers and new enrollments for freshmen, transfer and graduate students.

*Freshmen**

Academic <u>Year</u>	Number of <u>Applications</u>	Offered <u>Admissions</u>	New <u>Enrollments</u>
2001-2002	1,669	621	187
2000-2001	1,524	516	174
1999-2000	1,647	582	190
1998-1999	1,642	535	170
1997-1998	1,517	640	200

*Students entering in the fall semester of academic year.

*Transfers**

Academic <u>Year</u>	Number of <u>Applications</u>	Offered <u>Admissions</u>	New <u>Enrollments</u>
2001-2002	57	15	9
2000-2001	38	9	5
1999-2000	41	9	4
1998-1999	44	12	9
1997-1998	42	7	4

*Students entering in the fall semester of academic year.

Enrollments and Degrees

The following table provides student enrollments and the number of degrees conferred at HMC for each of the five most recent academic years.

ENROLLMENTS AND DEGREES

<u>Academic Year</u>	<u>Enrollments</u>	<u>Degrees Awarded</u>
	<u>Total FTE</u>	<u>Total</u>
2001-2002	697.5	191
2000-2001	717.8	149
1999-2000	699.0	152
1998-1999	702.0	153
1997-1998	660.5	143

Comprehensive Fees

Tuition, room, board and fees for full-time students at HMC for the 2002-2003 year total \$36,008. A summary of the current and past five academic year tuition and fees and room and board is provided below:

Comprehensive Fees

<u>Academic Year</u>	<u>Tuition and Fees</u>	<u>Room and Board*</u>	<u>Total</u>
2001-2002	\$27,037	\$8,971	\$36,008
2000-2001	\$25,506	\$8,544	\$34,050
1999-2000	\$23,187	\$8,418	\$31,605
1998-1999	\$22,083	\$8,017	\$30,100
1997-1998	\$21,234	\$7,502	\$28,736

*Based on double occupancy and a 19-meal plan.

Faculty

The following table reflects the number of full-time and part-time faculty appointments for the current and past five academic years, as well as the number of tenure track faculty with tenure. The data is for instructional faculty only, and excluded deans, associate deans, coaches, administrators and librarians who may hold faculty rank. Share faculty appointments in joint programs are not included.

FACULTY

<u>Academic Year</u>	<u>Tenured Full Time</u>	<u>Other Full Time</u>	<u>Part Time FTE</u>	<u>Total FTE</u>
2002-2003	51	29	2.7	82.7
2001-2002	54	24	3.1	81.1
2000-2001	54	24	0.7	78.7
1999-2000	54	26	0.7	80.7
1998-1999	48	29	4.6	81.6

Of the 82 full time faculty in 2002-2003, 31 are professors, 21 are associate professors, 21 are assistant professors and the remaining seven are adjuncts and visitors. Of the full-time

faculty, 64% are tenured. All of the faculty has obtained a Ph.D. or other terminal degree. The current undergraduate student/faculty ratio is 8 to 1. Approximately 33% of the faculty are women and 13% of the faculty represent minority faculty appointments.

IV. BACKGROUND:

General: Founded in 1955, HMC is an independent coeducational science and engineering undergraduate college. Its curriculum is designed to create scientists and engineers with unusual breadth in their technical education and a firm academic grounding in the humanities and social sciences. The Bachelor of Science degree is awarded in biology, chemistry, computer science, engineering, mathematics, physics, mathematical biology, a joint major in computer science and mathematics, an individual program of students, or an off-campus major at one of the other Claremont Colleges.

With 697 students enrolled in Fall 2002, HMC is a member of The Claremont Colleges, a consortium of five undergraduate colleges and two graduate institutions. All seven campuses are physically contiguous and share facilities and programs such as a central library system, ethnic programs, student health care, as well as certain accounting and real estate holdings, utility and telephone services and systems.

The campus consists of 33 acres with an elongated orientation along US Route 66 in the City of Claremont, County of Los Angeles. Its buildings include eleven academic and administrative buildings, seven residence halls, and other buildings including a central dining and the Linde Activities Center.

Administration: HMC is governed by a self-perpetuating Board of Trustees. There are presently 57 members of the Board; 45 regular voting trustees and 12 emeritus non-voting trustees. Each regular trustee generally serves on at least one Board committee and is expected to participate fully in the deliberations and work of that committee.

Accreditations: HMC is accredited by the Western Association of Schools and Colleges ("WASC"), of which it is a member. The most recent accreditation was received in 1999 and the next scheduled visit to HMC by WASC is in the Fall of 2009. In addition, HMC is accredited by the Accreditation Board for Engineering and Technology.

Academic Programs: HMC provides Bachelor of Science degrees in biology, chemistry, physics, computer science/mathematics, and biology/mathematics. HMC's mission is to produce highly competent engineers, scientists, and mathematicians with the breadth to understand the impact of their work on society. One-third of the curriculum is the technical core (science, mathematics, engineering), one-third is humanities and social sciences. The remaining coursework constitute the major. Approximately 40% of the senior class enter graduate and professional school immediately, with 95% receiving fellowships. The remaining graduates take positions in business, industry and government. Special programs are extensive undergraduate research opportunities and industry-sponsor clinic projects in engineering, mathematics, computer science and physics.

Competition:

HMC's principal competitors are:

<u>Institution Name</u>	<u>Location</u>
UC Berkeley	Berkeley, California
Stanford University	Palo Alto, California
California Institute of Technology	Pasadena, California
Massachusetts Institute of Technology	Cambridge, Massachusetts

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 1993	\$8,000	\$5,695	\$-0-
CEFA Series 1997C	5,875	4,340	4,340
Proposed			
CEFA Series 2003			7,500
Totals		<u>\$10,035</u>	<u>\$11,840</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 \$7,500,000 for Harvey Mudd 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.