

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

EXECUTIVE SUMMARY

Applicant: Facility Type: Project Location: Accreditation:	St. Mary's College of California ("SMC") Moraga, CA Contra Costa County Private University 1928 Saint Mary's Road, Moraga, CA 94556 Western Association of Schools and Colleges. See page 8 for other accreditations.	Amount Requested: Loan Term: Date Requested: Resolution Number:	\$26,000,000 17 Years June 26, 2003 214																								
<p>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 \$2.3 million.</p>																											
<p>Type of Issue: Public offering with variable rate bonds in the form of auction rate securities. Credit Enhancement: SMC expects either MBIA or FGIC will insure the bonds. Expected Rating: Aaa/AAA, based on insurance by either MBIA or FGIC. Moody's has confirmed that the 2001 underlying rating of A3 will remain unchanged. Underwriter: Banc of America Securities LLC Bond Counsel: Orrick, Herrington & Sutcliffe LLP</p>																											
<p>Financial Status: SMC's income statement for the past three fiscal years shows increasing operating profits primarily as a result of increases in its revenue base, specifically net tuition and fees. Although operations have contributed to an increase in unrestricted net assets, non-operating losses primarily due to net market value losses on endowment funds and investments have resulted in an overall decline to the unrestricted net asset balance. SMC's management has maintained a strong balance sheet with moderate debt and significant financial resources and has recently completed a capital campaign that has contributed to a \$40 million increase in temporarily and permanently restricted net assets during the review period.</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>Staff Recommendation: Staff recommends the Authority approve a resolution for an amount not to exceed \$26,000,000 for St. Mary's College of California subject to the bonds being rated at least "A" by a nationally recognized rating agency.</p>																											

STAFF SUMMARY AND RECOMMENDATION

St. Mary's College of California ("SMC")

June 26, 2003
Resolution Number: 214

- I. PURPOSE OF FINANCING:** SMC plans to take advantage of currently low interest rates and refinance its 1993 CEFA bonds.

Refunding \$26,129,500

SMC plans to current refund the existing CEFA Series 1993 Revenue and Refunding Bonds. The current coupon rates on the existing fixed rate bonds range from 2.9% to 5.0% with a final maturity of 2020. The proposed financing, structured as auction rate securities, will include an interest rate swap to a fixed rate to maturity. This is expected to result in an average coupon rate of 2.659%, with a final maturity date of 2020, thus providing SMC with a net present value savings of approximately \$2.3 million or 12.9% of the 1993 bonds.

The 1993 bonds were issued in the amount of \$28,675,000 with \$24,635,000 outstanding as of May 31, 2003. SMC will exercise its option to call the 1993 bonds on October 1, 2003.

Financing Costs 792,500

Insurance/bank fee\$ 283,000
Underwriter discount 208,000
Bond counsel fee..... 145,000
Other 156,500

***TOTAL USES OF FUNDS* \$26,922,000**

Financing Structure:

- Negotiated public offering.
- General obligation pledge.
- Weekly variable interest rates.
- Swapped to fixed rate to maturity.
- Final maturity on October 1, 2020.
- MBIA or FGIC insurance.

II. FINANCIAL ANALYSIS:

St. Mary's College of California

Statement of Activities

Unrestricted (000's)

	Fiscal Year Ended June 30,		
	<u>2002</u>	<u>2001</u>	<u>2000</u>
Operating:			
Revenues:			
Tuition and fees, net	\$ 51,869	\$ 47,878	\$ 44,942
Sales and services of auxiliary enterprises	11,694	10,895	10,132
Contributions	2,144	973	1,491
Investment income	202	438	467
Endowment income and realized gains distributed	3,200	2,938	1,756
Other income	555	612	616
Net assets released from restrictions	1,660	1,336	1,862
Total operating revenue	<u>71,324</u>	<u>65,070</u>	<u>61,266</u>
Expenses:			
Instruction and academic support	33,190	30,893	29,446
Student services	9,526	8,555	7,868
Institutional support	11,586	10,544	10,486
Operations and plant maintenance	5,527	5,464	4,414
Other	90	34	34
Interest expense	1,951	2,359	1,488
Depreciation expense	2,365	1,261	2,097
Auxiliary services	5,463	5,469	5,332
Total operating expenses	<u>69,698</u>	<u>64,579</u>	<u>61,165</u>
Increase in unrestricted net assets from operations	<u>1,626</u>	<u>491</u>	<u>101</u>
Nonoperating:			
Contributions	-	1,261	524
Net gains/losses on endowments and investments	(4,464)	528	2,109
Depreciation	(2,827)	(2,715)	(1,306)
Property, plant and equipment deletions	-	(984)	
Actuarial adjustments and other	208	(522)	122
Net assets released from restrictions	664	7	3,525
Non-operating increase in unrestricted net assets	<u>(6,419)</u>	<u>(2,425)</u>	<u>4,974</u>
Increase (decrease) in unrestricted net assets	(4,793)	(1,934)	5,075
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	77,633	85,144	80,069
Reclassification*	-	(5,577)	-
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 72,840</u>	<u>\$ 77,633</u>	<u>\$ 85,144</u>

*A reclassification was made to increase temporarily restricted net assets as of June 30, 2001 to correct for an overstated release from restrictions in the 1999 financial statements.

St. Mary's College of California
Statement of Financial Position (000's)

	As of June 30,		
	2002	2001	2000
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 18,244	\$ 8,638	\$ 6,295
Investments	14,889	14,367	13,342
Accounts receivables, net	13,847	7,481	4,150
Inventory	86	76	79
Prepaid expenses	987	867	706
Total current assets	48,053	31,429	24,572
Non-current investments	86,023	74,630	75,919
Contributions receivable	8,769	9,765	7,100
Notes receivable, net	1,583	1,402	1,328
Other assets	3,377	2,629	2,732
Property, plant and equipment, net	83,962	81,407	77,740
Total assets	\$ 231,767	\$ 201,262	\$ 189,391
LIABILITIES AND NET ASSETS:			
Current liabilities			
Accounts payable and accrued liabilities	\$ 4,531	\$ 3,577	\$ 4,827
Note payable to bank*	-	-	8,022
Current portion of long-term debt	1,135	1,090	1,040
Deferred revenue	5,209	4,517	4,436
Total current liabilities	10,875	9,184	18,325
Liabilities under trust agreements	1,125	1,425	1,504
Note payable to bank	-	14,156	-
Long-term debt, excluding current portion	51,191	28,326	29,416
Federal government grants refundable	1,756	1,653	1,562
Total liabilities	64,947	54,744	50,807
Net assets:			
Unrestricted	72,840	77,633	85,144
Temporarily Restricted	26,322	23,809	13,583
Permanently Restricted	67,658	45,076	39,857
TOTAL NET ASSETS	166,820	146,518	138,584
TOTAL LIABILITIES AND NET ASSETS	\$ 231,767	\$ 201,262	\$ 189,391

*This note was reclassified as a concurrent liability as of June 30, 2001 as management refinanced the obligation with the 2001 CEFA bond issued in August 2001.

Financial Ratios:

	Proforma (a)	2002	2001	2000
	FYE June 30, 2002			
Debt service coverage (x)	0.39	0.77	0.39	4.19
Debt to expendable net assets (x)	0.53	0.53	0.43	0.31
Expendable net assets to operations (x)		1.27	1.47	1.58
Margin (%)		-6.5%	-2.9%	7.5%

(a) Recalculates 2002 results to include the impact of this proposed financing. The proforma debt service coverage based on operating results only is 1.70 times.

Financial Discussion:

SMC's income statement for the past three fiscal years shows increasing operating profits primarily as a result of increases in its revenue base, specifically net tuition and fees.

SMC has exhibited solid net tuition and fee growth over the review period due to increases in total student enrollment. From FYE 2000 to FYE 2002, full-time enrollment increased from 3,449 to 3,751, which along with tuition and fee increases resulted in total tuition and fees increasing from \$44.9 million to \$51.8 million, or 16% during the period.

During the same three-year period, operating expenses also increased, but at a slower pace. To accommodate the increased enrollments, instruction and academic support and student services expenditures have risen. Over the review period, the combined increase in these two expenditure categories has been approximately 14%.

The net result of the steady operating revenue and expenditure growth has been a net increase in operating profits. Since 2000, the increase to unrestricted net assets from operations has been approximately \$1.5 million.

Although operations have contributed to an increase in unrestricted net assets, non-operating losses primarily due to net market value losses on endowment funds and investments have resulted in an overall decline to the unrestricted net asset balance.

In FYE 2001 and 2002, all gains posted from operating results were more than offset by non-operating losses, which can be attributed to property, plant and equipment deletions in 2001 and net market value losses on the endowment and investments in 2002. In FYE 2001, SMC wrote-off certain small amounts of construction in progress totaling \$984,000. In FYE 2002, the losses on the endowment and investments were due to a decline in the equity value of SMC's stock portfolio. SMC has over \$100 million invested in a diversified mix of equitable securities, fixed income instruments and alternative investments. Consequently the loss of \$4.4 million in the endowment and investments approximates 4% of the total portfolio value.

SMC's management has maintained a strong balance sheet with moderate debt and significant financial resources and has recently completed a capital campaign that has contributed to a \$40 million increase in temporarily and permanently restricted net assets during the review period.

SMC's current financial strength is sound. It maintains over \$166 million in total net assets. With this proposed financing, the proforma operating debt service coverage will be approximately 1.70x.

SMC concluded a five-year capital campaign on June 30, 2001. The Spirit of St. Mary's campaign surpassed the original goal of \$150 million in pledges and contributions and exceeded the expanded goal of \$180 million one year earlier than predicted. The campaign resulted in contributions totaling more than \$195 million: nearly \$40 million for endowment and \$13 million for preserving the level of annual fund giving with the remainder for capital projects. A significant portion of both the unrestricted and restricted pledged campaign gifts have not yet been recorded as gift income in accordance with GAAP.

To date, campaign funds earmarked for capital projects have been used to make renovations to the Chapel (\$2.6 million, completed Fall, 2000), Ageno Townhouses (\$7.2 million, completed August 2000) and the Bebe Cassin Student Union (\$5.7 million, completed in the Spring of 2000).

III. STUDENT, COLLEGE COSTS, AND FACULTY STATISTICS:

Applications and New Enrollments

Strong growth in applications for freshman class admission from Fall 1998 through Fall 2001, and a corresponding increase in the size of the class have resulted in significant growth in the traditional undergraduate enrollment over the past five years. During this same period, enrollment in adult and graduate programs declined due to increased competition from new institutions entering the market and adverse economic conditions. As a result of the enrollment decline in the adult programs, there is a corresponding decline in the total number of degrees conferred.

Fall Semester	Freshman*			Transfer*		
	Number of Apps.	Offered Admission	New Enrollments	Number of Apps.	Offered Admission	New Enrollments
2002	3,022	2,559	645	446	318	153
2001	3,146	2,496	580	497	330	162
2000	3,103	2,428	618	490	323	142
1999	2,830	2,419	620	501	308	136
1998	2,999	2,478	572	522	375	170

*Headcount, not full-time equivalent.

Fall Semester	Freshman and Transfer (Combined)*			
	Number of Apps.	Offered Admission	Selectivity Ratio	New Enrollments
2002	3,468	2,877	83.0%	798
2001	3,643	2,826	77.6%	742
2000	3,593	2,751	76.6%	760
1999	3,331	2,727	81.9%	756
1998	3,521	2,853	81.0%	742

*Headcount, not full-time equivalent

Enrollment and Degrees

Academic Year	Enrollments			
	Undergrad. FTE	Extended Educ. FTE	Graduate FTE	Total FTE
2002	2,542	573	636	3,751
2001	2,460	398	630	3,488
2000	2,459	363	627	3,449
1999	2,305	372	701	3,378
1998	2,271	512	756	3,539

Academic Year	Degrees and Certificates Granted by Level (Academic Year)			
	Bachelor	Post-Baccalaureate	Master	Total Degrees Granted
2002	676	22	163	861
2001	723	9	185	917
2000	728	26	214	968
1999	792	61	191	1,044
1998	747	16	265	1,028

Tuition

SMC has raised its rates of tuition in each of the past five academic years and believes that its rates remain competitive compared to those of other private institutions with which SMC competes for students.

	Undergraduate Tuition, Fees, Room and Board		
	Undergraduate Tuition and Fees	Room and Board	Undergraduate Total
Fall 2002	\$20,885	\$8,550	\$29,435
Fall 2001	\$19,525	\$8,050	\$27,575
Fall 2000	\$18,255	\$7,555	\$25,810
Fall 1999	\$17,475	\$7,370	\$24,845
Fall 1998	\$16,792	\$6,990	\$23,782

Faculty

SMC's full-time faculty under contract numbered 196 during the 2002-2003 academic year. Approximately 95% of the full-time faculty had obtained the terminal degree in their field and in the 2002-2003 academic year, 62% of full-time instructional faculty was tenured. In addition, SMC employed over 395 part-time faculty. SMC was served by 18 Christian Brothers who donated their services to SMC as faculty or staff during the 2002-2003 academic year. The 2002-2003 undergraduate student/faculty ratio was approximately 13 to 1. SMC anticipates these numbers to remain relatively constant in the 2003-2004 academic year. SMC does not utilize graduate teaching assistants.

Faculty Summary (Full-Time Equivalent)				
Academic Year	Tenured Full-Time	Other Full-Time	Part-Time FTE	Total FTE
2002	121	75	96.9	292.9
2001	113	69	94.9	276.9
2000	104	88	108.3	300.3
1999	103	72	93.6	268.6
1998	131	41	88.6	260.6

IV. BACKGROUND:

General:

SMC is one of the oldest colleges in the West. Founded in San Francisco in 1863, its stewardship was assumed by the Christian Brothers in 1868. After its 1872 California Incorporation, SMC was given a charter empowering it to confer degrees and to exercise all other privileges of a university. The campus was relocated to Oakland in 1889 and then moved to its present site in Moraga in 1928 where it continues to offer a comprehensive array of liberal arts and professional undergraduate and graduate programs.

Religious Certification:

Since SMC is religiously affiliated with the Catholic Church, it was required to provide both a certification of compliance with the provisions of the CEFA Act relating to religion, and a more comprehensive certification detailing compliance with the specific standards as required by the Authority.

Issuer Counsel and Bond Counsel have reviewed the certifications and have determined that SMC responded satisfactorily to all questions.

Administration:

The governance of SMC is entrusted to a self-perpetuating Board of Trustees (the “Board”) composed of 18 individuals, not less than six nor more than ten of whom must be Christian Brothers. There are currently no vacancies on the Board. On May 23, 2003, the Board voted to increase the size of the Board to 25 individuals, subject to the amendment of the College's Articles of Incorporation to implement such change. The leader off the San Francisco Province of the Christian Brothers and the President of the College are members of the Board by right of office. The other Trustees are elected to three-year terms and no Trustee may hold more than three successive terms except Trustees by right of office. The Trustees elect a Chairman for a term of two years. The Board normally meets three times each year and has six standing committees, including a Finance and Facilities Committee. In between meetings of the Board, the Executive Committee is empowered to take any action that the Board may take in emergency or exigent circumstances (as determined by the Executive Committee).

Accreditations and Affiliations:

SMC is accredited by the Western Association of Schools and Colleges. It also has professional accreditation from the following organizations: Commission on Teacher Credentialing, California State Board of Registered Nursing, National League for Nursing, American Bar Association, Montessori Accreditation Council for Teacher Education, American Association of Museums, and National Collegiate Athletic Association.

In addition to the accreditation organizations listed above, SMC is affiliated with the following organizations: American Association of Colleges for Teacher Education, American Association of Colleges of Nursing, American Montessori Society, Association of American Colleges and Universities, Association of Catholic Universities and Colleges, Association of Independent California Colleges and universities, California Association of Colleges for Teacher Education, Council for Advancement and Support of Education, Council for Higher Education Accreditation, Council of Independent Colleges, Executive MBA Council, Institute of International Education, Internal Association of Lasallian Institutions of Higher Education, and National Association of Independent Colleges and Universities.

Academic Programs:

SMC is organized into five schools, School of Liberal Arts, School of Science, School of Economics and Business Administration, School of Education, and School of Extended Education which provide the programs of study for students at the undergraduate and graduate levels. In addition, the Intercollegiate Nursing Program offers the degree of Bachelor of Science in Nursing in its co-institutional program with Samuel Merritt College.

Competition:

SMC competes for students with the following educational institutions:

<i><u>Institution</u></i>	<i><u>Location</u></i>
Cal Poly San Luis Obispo	San Luis Obispo, California
Loyola Marymount University	Los Angeles, California
Santa Clara University	Santa Clara, California
University of California, Berkeley	Berkeley, California
University of California, Davis	Davis, California
University of San Diego	San Diego, California
University of California, Santa Barbara	Santa Barbara, California

According to SMC's management, prospective students report that they apply because of its academic reputation, small class size, and close contact to faculty.

SMC is consistently ranked as one of the top comprehensive institutions in the West by *US News & World Report*. SMC has also been included in the Princeton Review's Best College Guide for the past eleven years.

V. OUTSTANDING DEBT:

<u>Issue:</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding as of 6/30/02</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<i>Existing CEFA:</i>			
Revenue Bonds, 1993	\$ 28,675,000	\$ 25,580,000	\$ -
Revenue Bonds, 2001	24,000,000	24,000,000	24,000,000
<i>Other:</i>			
Housing Bonds, due 2012	2,963,000	856,000	856,000
Note Payable to Bank, due 2005	2,100,000	1,890,000	1,890,000
<i>Proposed:</i>			
CEFA Revenue Bonds 2003			26,000,000
Total	<u>\$ 57,738,000</u>	<u>\$ 52,326,000</u>	<u>\$ 52,746,000</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 for an amount not to exceed \$26,000,000 for St. Mary's College of California, subject to the bonds being rated at least "A" by a nationally recognized rating agency.