

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY  
BOND FINANCING PROGRAM  
EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Stanford University Stanford, California Santa Clara County</p> <p><b>Facility Type:</b> Private University</p> <p><b>Accreditations:</b> Western Association of Schools and Colleges</p>	<p><b>Amount Requested:</b> \$266,000,000</p> <p><b>Date Requested:</b> May 27, 2004</p> <p><b>Requested Loan Term:</b> up to 50 years</p> <p><b>Resolution Number:</b> 215</p>																														
<p><b>Use of Bond Proceeds:</b> Proceeds will be used to finance and refinance capital expenditures and improvements within the University as part of its on-going capital plan.</p>																															
<p><b>Type of Issue:</b> Negotiated public offering, variable interest rates</p> <p><b>Credit Enhancement:</b> None</p> <p><b>Expected Credit Rating:</b> Aaa/AAA/AAA – (Moody’s/S &amp; P/Fitch) based on University credit; short-term ratings Aaa/VMIG1/P-1, AAA/A-1+, AAA/F1+ (Moody’s/S&amp;P/Fitch)</p> <p><b>Underwriters:</b> Morgan Stanley &amp; Co. Incorporated, Goldman Sachs &amp; Co. and J.P. Morgan Securities Inc.</p> <p><b>Bond Counsel:</b> Orrick, Herrington &amp; Sutcliffe</p>																															
<p><b>Financial Overview:</b> Stanford University holds a leading market position nationwide with exceptional student demand. The University’s financial position in the current year has rebounded due to strategic financial management and improved investment performance. The University ended FY 2003 with its largest net asset balance recorded to date. Substantial liquidity and continued impressive fundraising results contribute to a healthy balance sheet.</p>																															
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<p><b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																															
<p><b>Staff Recommendation:</b> Staff recommends the Authority approve a resolution in an amount not to exceed \$266,000,000 to issue tax exempt revenue bonds for Stanford University, subject to a bond rating of at least an “A” category (or equivalent short-term rating) by a nationally recognized rating agency and the standard bond issuance guidelines.</p>																															

**STAFF SUMMARY AND RECOMMENDATION  
BOND FINANCING PROGRAM**

May 27, 2004

**STANFORD UNIVERSITY (the “University” or “Stanford”)**

Resolution Number: 215

- I. PURPOSE AND STRUCTURE OF FINANCING:** The University continues to progress with its significant multi-year Capital Program. This financing will refund approximately \$115 million of existing CEFA debt outstanding and include \$150 million new money. The refunded bonds, currently allocated among nine different issues, will be consolidated over time into an expandable CUSIP series, which will allow for better trading performance. The new money will be used for new construction projects and to pay down outstanding tax-exempt commercial paper, restoring capacity to this facility.

The new issue will be structured in four series: three variable auction rate notes (ARN) series and one variable rate demand notes (VRDN) series. ARNs are advantageous to Stanford because they cannot be put back to the University by investors, and as a result, Stanford is not required to maintain self-liquidity against them. The four series will be combined under one master indenture allowing for multiple modes. The expandable CUSIP series will allow for the issuance of additional tranches under the same CUSIP in the VRDN mode or under a different CUSIP in different modes. Under the terms of the Indenture presented to the meeting and the terms of the proposed Resolution, the University will be permitted to issue (and the Executive Director or Deputy Executive Director of the Authority will be permitted to approve) additional tranches of bonds over the next five years (up to the maximum aggregate principal amount of \$266 million) for the project, pursuant to Supplemental Indentures, without further board action.

**Uses of Funds:**

**Overview**

Stanford will use the proceeds to finance or refinance a variety of capital improvements including:

- Constructing and renovating residential facilities for undergraduate, graduate, and post-doctoral students and fellows
- Constructing and renovating new and existing academic, research and athletic facilities
- Expanding, replacing, and upgrading campus water, steam, chilled water and electrical utilities, parking structures, transportation equipment, roadways, safety systems and other infrastructure facilities
- Constructing and expanding communications systems, networks and systems applications

**Details**

\$56.4 million in new construction will fund such projects as:

- Florence Moore (undergraduate residence hall) renovation
- Roble Hall (undergraduate residence and dining hall) renovation
- Escondido Village Quillen Studio 7 (graduate residence hall) construction
- Stanford Engineering and Medical Campus buildings
- East Campus Road expansion
- Sand Hill Road expansion

\$93.6 million will pay down outstanding Tax-Exempt Commercial Paper, which currently finances such projects as:

- Escondido Village Studio 5 & 6 (graduate residence hall) construction
- Branner Hall (undergraduate residence and dining hall) renovation
- SAL III (off-site library collection in Livermore) construction
- SLAC User Lodge (short term housing in faculty visiting and conducting research at Stanford Linear Accelerator Center) construction
- Pasteur Parking Structure

\$115 million will refund L-series, which financed such projects as:

- Rains Houses (graduate residence hall) construction
- Annenberg, Cubberley, Dinkelspiel, and Kresge Auditorium upgrades
- Groundwater Recharge capital improvements
- Campus Drive widenings
- Storm Drainage upgrades

**Allocation of Funds**

<b>New Construction (new money) .....</b>	<b>\$56,400,000</b>
<b>Pay down Tax-Exempt Commercial Paper (new money).....</b>	<b>93,600,000</b>
<b>Refund Series L1 – L9 .....</b>	<b>115,033,000</b>
<b>Financing costs.....</b>	<b><u>967,000</u></b>
<b>Total Uses of Funds .....</b>	<b>\$266,000,000</b>

## **Financing Structure:**

- Negotiated public offering
- Four series S1, S2, S3, and S4
- S1 and S2 in 7-day Auction Rate Notes (ARN), S3 in daily ARN, and S4 in Variable Rate Demand Notes (VRDN)
- S4 includes expandable CUSIP feature allowing for an increase in the par amount under the same CUSIP for VRDN mode and new CUSIP for a different mode
- Multiple modes with variable interest rates with ability to extend various maturities
- Ability to convert to fixed interest rates in the future
- Maturities up to 50 years
- Expected Aaa/AAA/AAA – (Moody's/S & P/Fitch) ratings, short-term ratings Aaa/VMIG1/P-1, AAA/A-1+, AAA/F1 (Moody's/S&P/Fitch)

## II. FINANCIAL STATEMENTS AND ANALYSIS:

**STANFORD UNIVERSITY**  
**Consolidated Statement of Activities**  
**Unrestricted (000's)**

	Fiscal Year Ended August 31,		
	<u>2003</u>	<u>2002</u>	<u>2001</u>
<b>Revenues:</b>			
Student Income	\$ 317,817	\$ 304,840	\$ 299,701
Sponsored research support	860,310	801,602	727,483
Expendable gifts in support of operations	112,885	104,310	125,284
Investment income	514,300	453,974	444,854
Health Care Services	1,277,067	1,181,302	1,010,143
Other income	319,817	291,655	268,167
Net assets released from restrictions	72,419	51,656	64,262
Total revenues	<u>3,474,615</u>	<u>3,189,339</u>	<u>2,939,894</u>
<b>Expenses:</b>			
Salaries and benefits	1,950,083	1,765,968	1,468,625
Depreciation	219,023	226,008	192,494
Stanford Linear Accelerator Center	-	-	205,480
Other operating expenses	1,163,720	1,163,549	1,027,302
Total expenses	<u>3,332,826</u>	<u>3,155,525</u>	<u>2,893,901</u>
<b>Excess of revenues over expenses</b>	<b>141,789</b>	<b>33,814</b>	<b>45,993</b>
Other changes in unrestricted net assets			
Reinvested endowment gains (losses)	907,456	(604,933)	(868,919)
Other changes	1,098	797	(590)
Net change in unrestricted net assets	<u>1,050,343</u>	<u>(570,322)</u>	<u>(823,516)</u>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>7,620,235</u>	<u>8,190,557</u>	<u>9,014,073</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 8,670,578</u>	<u>\$ 7,620,235</u>	<u>\$ 8,190,557</u>

**STANFORD UNIVERSITY**  
**Consolidated Statement of Financial Position (000's)**

	As of August 31,		
	2003	2002	2001
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 913,566	\$ 522,195	\$ 817,343
Accounts receivable	329,781	345,296	333,871
Inventories, prepaid expenses	81,172	65,994	80,960
Pledges receivable	474,481	513,134	527,284
Student loans receivable	63,245	68,072	74,185
Other loans receivable (principally faculty mortgages)	248,912	257,956	211,358
Investments at fair value	11,494,213	9,519,716	10,140,812
Net assets of related health care entities	-	6,547	5,443
Plant facilities, net of accumulated depreciation	2,723,023	2,527,454	2,353,731
<b>TOTAL ASSETS</b>	<b>\$ 16,328,393</b>	<b>\$ 13,826,364</b>	<b>\$ 14,544,987</b>
<b>LIABILITIES AND NET ASSETS:</b>			
<b>Liabilities:</b>			
Accounts payable and accrued expenses	\$ 822,373	\$ 713,155	\$ 732,838
Pending trades	378,307	211,336	-
Liabilities under security agreements	343,741	28,845	511,507
Deferred rental income	369,008	9,029	-
Income beneficiary share of living trust investments	258,261	267,514	271,046
Notes and bonds payable	1,866,496	1,470,546	1,445,491
U.S. Government refundable loan funds	53,597	52,705	50,256
<b>TOTAL LIABILITIES</b>	<b>4,091,783</b>	<b>2,753,130</b>	<b>3,011,138</b>
<b>Net assets:</b>			
Unrestricted	8,670,578	7,620,235	8,190,557
Temporarily Restricted	458,703	530,057	525,896
Permanently Restricted	3,107,329	2,922,942	2,817,396
<b>TOTAL NET ASSETS</b>	<b>12,236,610</b>	<b>11,073,234</b>	<b>11,533,849</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 16,328,393</b>	<b>\$ 13,826,364</b>	<b>\$ 14,544,987</b>

**Financial Ratios:**

	<b>Proforma (b)</b>				
	<b>YE Aug 31, 2003</b>		<b>2003</b>	<b>2002</b>	<b>2001</b>
Debt service coverage (x)	2.00 (a)		2.13 (a)	1.35 (a)	2.40 (a)
Debt to expendable net assets (x)	0.23		0.20	0.18	0.17
Expendable net assets to operations (x)			2.74	2.58	3.01
Margin (%)			4.1%	1.1%	1.6%

(a) Based on operating results.

(b) Recalculates 2003 audited results to include the impact of this proposed financing.

## **Financial Discussion:**

**Stanford University holds a leading market position nationwide with exceptional student demand.**

The University attracts large numbers of highly qualified applicants for admission to its undergraduate and graduate programs. It remains among the most selective in the nation as indicated by its 5-year average of 13% acceptance of freshman. Student income increased from \$304.8 million in FY 2002 to \$317.8 million in FY 2003. Contributing to this increase was the tuition rate increase of 5% for undergraduates as well as most graduate programs. Further, room and board rates increased 4.5% and the University continues to add to its student housing stock with additional graduate student housing in Escondido Village.

The University is also among the nation's leading research universities and continues to post healthy research revenue growth rising over 7% from \$802 million in FY 2002 to \$860 million in FY 2003.

**The University's financial position in the current year has rebounded due to strategic financial management and improved investment market performance. The University ended FY 2003 with its largest net asset balance recorded to date.**

Financial operations suffered from the prolonged weak investment environment in 2001-2002, rising health care benefit costs, and the increased demand for university-sponsored financial aid. In anticipation of continued economic challenges, management took several steps to moderate growth in expenditures and to conserve resources including a hiring freeze on non-essential staff recruitment and operating budget reductions. As a result, FY 2003 revenues were stronger, up 9% from the prior year while expenses increased 6%. Salaries and benefits continue to rise due to additional staff hired to support the growth in sponsored research and clinical services. Further, health care benefit costs for employees and retirees continue to escalate with a 17% increase in the current year as compared to FY 2002.

The most recent year reflects a significant increase in unrestricted net assets up \$1.05 billion from FY 2002. This gain was due primarily to improved investment performance experienced in the last half of FY 2003. Investment returns included a \$213 million unrealized gain in the estimated fair market value of the Stanford Shopping Center (SSC). The University entered into an agreement to lease the shopping center for a period of 51 years. FY 2003 ended with a consolidated net asset balance of \$12.2 billion, the largest net asset balance recorded to date.

**Substantial liquidity and continued impressive fundraising results contribute to a healthy balance sheet.**

Cash and cash equivalents increased significantly in the current year, up 75% as compared to FY 2002. The financial position is further bolstered by the University's continued fundraising results. FY 2003 marks the second best fundraising year in University history. Significant gift activity included \$16.3 million raised by the Stanford Fund. Continued contributions to the Campaign for Undergraduate Education (CUE) increased the total since October 2000, to \$889 million. In addition, the Hewlett Challenge for the School of Humanities and Sciences reached \$54.4 million, with this amount to be matched by the William and Flora Hewlett Foundation.

Deferred rental income increased notably in FY 2003 to \$369 million, up from \$9 million in FY 2002. As a result of the SSC lease agreement discussed above, the University is entitled to receive certain minimum and participation rents. The lessee prepaid \$332 million of the lease commitment at signing. The cash received was recorded as deferred rental income, and will be recognized ratably over the term of the lease.

Debt service coverage is based on operating results and remains good with a pro forma ratio of 2x. Debt to expendable net assets ratios indicate rising leverage, yet remain relatively low with a pro forma at .23x. The current year reflects a very strong margin at 4.1%. The University's strong financial position provides assurance that the University should be able to repay its debt under any feasible risk scenario.

**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. As a result, the University should be able to maintain stability of enrollment. For the 2003 fall quarter, the University enrolled 6,654 undergraduate and 6,671 graduate full-time equivalent students. For the academic year 2003, 1,788 bachelor degrees and 2,855 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)\***

Academic Year	Applications	Offered Admissions	Selectivity Ratio	New Enrollments
1999-2000	19,221	2,718	14.1%	1,770
2000-2001	19,580	2,538	13.0%	1,679
2001-2002	20,265	2,537	12.5%	1,713
2002-2003	19,963	2,473	12.4%	1,724
2003-2004	19,858	2,444	12.3%	1,721

\* Headcount, not full-time equivalent

### Graduate Programs \*

Academic Year	Applications	Offered Admissions	Selectivity Ratio	New Enrollments
1999-2000	28,295	4,525	16.0%	2,387
2000-2001	27,095	4,422	16.3%	2,288
2001-2002	27,201	4,271	15.7%	2,175
2002-2003	30,778	4,218	13.7%	2,186
2003-2004	32,503	4,443	13.7%	2,300

\* Headcount, not full-time equivalent

### *Enrollments and Degrees*

Over the past five years, total enrollments remained fairly constant, as did the number of degrees awarded.

Academic Year	<u>Enrollment</u>			<u>Degrees Conferred</u>		
	Undergraduate FTE	Graduate FTE	Total FTE	Bachelor	Graduate	Total
1999-2000	6,594	6,679	13,273	1,737	2,904	4,641
2000-2001	6,548	6,779	13,327	1,676	2,936	4,612
2001-2002	6,637	6,546	13,182	1,692	2,777	4,469
2002-2003	6,371	6,586	12,957	1,788	2,855	4,643
2003-2004	6,654	6,671	13,325	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 2003-04 is \$37,636. A five-year summary of comprehensive fees is provided below. Total cost has increased an average of 4% per year over the last five years.

Academic Year	Undergraduate Tuition and Fees	Average Room and Board	Undergraduate Total
1999-2000	\$23,058	\$7,881	\$30,939
2000-2001	\$24,441	\$8,030	\$32,471
2001-2002	\$25,917	\$8,304	\$34,221
2002-2003	\$27,204	\$8,680	\$35,884
2003-2004	\$28,563	\$9,073	\$37,636

### ***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 five academic years.

<u>Academic Year</u>	<u>Tenured Full-Time</u>	<u>Other Full Time</u>	<u>Part-Time</u>	<u>Total</u>
1999-2000	934	667	17	1,618
2000-2001	922	716	16	1,654
2001-2002	928	743	14	1,685
2002-2003	928	754	15	1,697
2003-2004	934	779	17	1,730

#### **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. The Board is responsible for approving 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 standing committees, including the Committees on Finance, Development, Audit and Compliance, Academic Policy, Planning and Management, Land and Buildings, Alumni and External Affairs, the Medical Center and Trusteeship. The Board nominates and selects its successors, eight of whom shall be alumni Trustees.

The Stanford Management Company (“SMC”) is a division of the University and 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 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 academic 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 professionally 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 admitted to the University 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 Ginzton Laboratory, the Stanford Institute for the Environment, the Institute for Research on Women and Gender, the Institute for Cancer/Stem Cell Biology and Medicine, the Brain Research Institute, the Institute for International Studies and the Center for Economic Policy Research, the Hopkins Marine Station and the Global Climate and Energy Project. 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. Stanford’s tuition has been below the median tuition for peer schools in the Consortium for Higher Education (COFHE).

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

Issue:	Original Issue Amount	Amount Outstanding As of 8/31/03	Estimated Amount Outstanding after Proposed Financing
<b>Existing:</b>			
CEFA Revenue Bonds – Series M, N, O, P, Q, R	\$671,260	\$621,760	\$621,760
CEFA Revenue Bonds – Series L1– L9	115,033	115,033	0
Stanford University Bonds – Taxable	150,000	150,000	150,000
Medium Term Notes - Taxable	150,000	150,000	150,000
Commercial Paper – Taxable	N/A	87,400	87,400
Other, with various interest rates	N/A	28,017 <sup>(1)</sup>	28,017 <sup>(1)</sup>
Taxable Bonds Series 2002A PARS		50,000	50,000
CEFA Tax-Exempt Commercial Paper- 2002 <i>(maximum amount)</i>	150,000	<u>72,600</u>	<u>0</u>
Subtotal University Notes and Bonds		1,274,810	1,087,177
CHFFA Hospital Bonds	558,895	548,465	548,465
Certificates of Participation	N/A	<u>37,000</u>	<u>37,000</u>
Subtotal Hospital Notes and Bonds		585,465	585,465
<b>Proposed:</b>			
<b>CEFA Series S, 2004</b>		<u>N/A</u>	<u>266,000</u>
<b>Total</b>		<u><b>\$1,860,275</b></u>	<u><b>\$1,938,642</b></u>

N/A – Not applicable

<sup>(1)</sup> Represents primarily the debts of wholly owned real estate investments.

**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 the Applicant.

**VII. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a resolution in an amount not to exceed \$266,000,000 to issue tax exempt revenue bonds for Stanford University, subject to a bond rating of at least an "A" category (or equivalent short-term rating) by a nationally recognized rating agency and the standard bond issuance guidelines.