

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

Applicant: Pomona College Claremont, California Los Angeles County Facility Type: Private College Accreditations: Western Association of Schools and Colleges	Amount Requested: \$72,000,000 Date Requested: January 27, 2005 Requested Loan Term: up to 50 years Resolution Number: 219
--	---

Use of Bond Proceeds: Bond proceeds will be used to refinance the CEFA 1999 Series B bonds as well as to fund various construction and improvements within the College. The proposed refinancing will result in a net present value savings of approximately \$530,000 or 3.5% over the life of the bonds.

Type of Issue: Negotiated public offering, 2005 Series A and Series B
Credit Enhancement: None
Expected Credit Rating: Long-term ratings - Aaa/AAA – (Moody’s/S & P);
 Short-term ratings - Aaa/VMIG1/P-1, AAA/A-1+ (Moody’s/S&P)
Underwriters: E.J. De La Rosa & Co., Inc.
Bond Counsel: Squire, Sanders & Dempsey LLP

Financial Overview: Pomona College has experienced fluctuating revenues over the last three years primarily due to market conditions. The current year reflects significant non-operating gains from improved investment returns. The balance sheet is healthy with minimal long-term debt, sizeable net assets, good debt service coverage levels, and strong operating margins.

<u>Sources of Revenues (\$000)- FYE 6-30-04:</u>	<u>Amount</u>	<u>Percent</u>
(Unrestricted Funds)		
Investment income and gains on investments	\$47,789	48%
Net student revenues	39,813	40%
Gifts, grants, and contracts	10,233	10%
Other sources	<u>1,195</u>	<u>2%</u>
Total revenues and gains	<u>\$99,030</u>	<u>100%</u>

<u>Estimated Sources of Funds (\$000):</u>		<u>Estimated Uses of Funds (\$000):</u>	
Bond Proceeds	\$72,000	Construction	\$55,952
		Refunding	15,150
		Financing Costs	<u>898</u>
Total Sources	<u>\$72,000</u>	Total Uses	<u>\$72,000</u>

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

Staff Recommendation: Staff recommends the Authority approve a resolution in an amount not to exceed \$72,000,000 to issue tax exempt revenue bonds for Pomona College, 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.

**STAFF SUMMARY AND RECOMMENDATION
BOND FINANCING PROGRAM**

January 27, 2005

POMONA COLLEGE (the “College”)

Resolution Number: 219

- I. PURPOSE AND STRUCTURE OF FINANCING:** Pomona College plans to refinance its CEFA 1999 Series B bonds to take advantage of the lower interest rate environment, providing approximately 3.5% net present value savings. In addition, bond proceeds will be used to fund new construction and renovations providing improvements throughout the campus.

Pomona College is part of the Claremont Colleges, which is a consortium of five undergraduate and two graduate institutions. The seven institutions occupy contiguous campuses and jointly finance a central administration for the operation of shared programs and facilities and services, including a library system, a computer center, a security force, maintenance services, a chaplain’s office, professionally staffed medical and counseling centers, and the Claremont Center for the Performing Arts. Although the College is responsible for its share of payments to operate facilities, which are owned jointly by the seven institutions, it is not responsible for the indebtedness of any of the other six institutions. In addition, none of the other six Claremont institutions has any responsibility to make payments with respect to the bonds or any other indebtedness of the College.

Currently, there is a shortage of space in certain science departments. The new construction is necessary to better accommodate the academic departments and to create more lab space for the faculty and students. The renovation projects are part of the College’s Long-Range Renovation Plan adopted by the trustees several years ago.

The following information provides details pertaining to the projects and the financing:

Uses of Funds:

Construction \$55,952,000

- Construct a new building to be located at 185 East Sixth Street, which will house the Psychology, Linguistics/Cognitive Science, Ethnic Studies, Geology, Environmental Analysis and Computer Science departments.
- Renovate the existing Seaver South building (609 North College Avenue), which currently houses the Biology, Geology, and Environmental Analysis departments. Once the new Sixth Street building (described above) is completed, Seaver South will only house the Biology department.
- Renovate other existing academic and administrative buildings, dormitories, food service, athletic, and other education buildings and facilities located on the main campus including Mason Hall, Seeley G. Mudd Science Library, Wig Hall, Gibson Computer Lab, Smiley Hall, and Harwood Court.

Advance Refunding 15,150,000

The College intends to refinance its 1999 Series B bonds to achieve a net present value savings of approximately \$530,000 or 3.5% over the life of the bonds.

Financing costs 898,000

Underwriter's Expenses\$527,000
Cost of Issuance.....305,000
Other 66,000

Total Uses of Funds..... \$72,000,000

Financing Structure:

Series A – \$44,790,000

- Negotiated public offering
- 40 year Fixed Rate Debt
- Combination of Current Interest Bonds (CIBs) and Capital Appreciation Bonds (CABs)
- Expected Aaa/AAA – (Moody's/S & P) ratings
- Includes CEFA Series 1999 B refunding

Series B - \$27,210,000

- Negotiated public offering
- Variable Rate Demand Notes (VRDNs)
- Maturities up to 50 years
- Expected short-term ratings Aaa/VMIG1/P-1, AAA/A-1+ (Moody's/S&P)

II. FINANCIAL STATEMENTS AND ANALYSIS:

POMONA COLLEGE
Statement of Activities
Unrestricted (000's)

	Fiscal Year Ended June 30,		
	2004	2003	2002
Revenues and Gains:			
Net Student Revenues	\$ 39,813	\$ 38,955	\$ 37,933
Federal grants and contracts	1,716	1,661	1,574
Private gifts and grants	8,020	10,271	5,960
Private contracts	497	442	449
Investment income	13,735	14,819	18,248
Net realized and unrealized gains on investments, appropriated	34,054	28,499	18,744
Sales and services of education departments	391	326	310
Other sources	804	934	647
Total revenues and gains	99,030	95,907	83,865
Expenses:			
Instruction	35,562	33,537	32,043
Research	2,303	2,122	2,144
Public Service	538	521	500
Academic support	9,678	9,099	8,886
Student services	10,432	10,191	9,636
Institutional support	15,090	13,266	12,349
Auxiliary enterprises	12,300	12,739	14,056
Total expenses	85,903	81,475	79,614
Increase in net assets from operating activities	13,127	14,432	4,251
Nonoperating activities:			
Net realized and unrealized gain (loss) on investments, unappropriated	147,189	(33,473)	(90,659)
Adjustment of actuarial liabilities	4,177	(148)	(2,165)
Comprehensive gain (loss) on staff retirement plans	782	(2,532)	-
Annuity and life income funds released	365	4,376	601
Net assets released from restrictions	16,930	4,446	6,354
Change in designation of donor contributions	(1,067)	(106)	(573)
Change in net assets from nonoperating activities	168,376	(27,437)	(86,442)
Increase (decrease) in net assets	181,503	(13,005)	(82,191)
 UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	 974,779	 987,784	 1,069,975
 UNRESTRICTED NET ASSETS, END OF YEAR	 \$ 1,156,282	 \$ 974,779	 \$ 987,784

POMONA COLLEGE
Statement of Financial Position (000's)

	As of June 30,					
	<u>2004</u>		<u>2003</u>		<u>2002</u>	
ASSETS:						
Cash	\$ 1,445	102%	\$ 715	-28%	\$ 990	
Accounts Receivable, net of allowance	2,527	-8%	2,757	-2%	2,815	
Prepaid expenses and deposits	437	-16%	522	-52%	1,085	
Short-term investments	27,552	-40%	45,777	-16%	54,608	
Contributions receivable	24,333	9%	22,281	9%	20,443	
Notes receivable, net of allowance	16,434	3%	15,927	4%	15,247	
Long-term investments:						
Pooled	1,198,588	16%	1,033,555	-2%	1,060,015	
Separately invested	217,850	-12%	247,512	-7%	265,098	
Plant facilities, net of accumulated depreciation	162,381	20%	135,438	10%	122,884	
TOTAL ASSETS	\$ 1,651,547	10%	\$ 1,504,484	-3%	\$ 1,543,185	
LIABILITIES AND NET ASSETS:						
Liabilities:						
Accounts payable	\$ 9,613	35%	\$ 7,124	17%	\$ 6,076	
Accrued payroll and other liabilities	5,480	-3%	5,631	67%	3,370	
Securities lending obligation	72,645	-35%	111,262	-23%	143,667	
Life income and annuities payable	48,759	12%	43,575	-6%	46,125	
CEFA bonds payable	45,060	-4%	47,040	-4%	48,885	
Government advances for student loans	4,738	4%	4,536	2%	4,428	
Funds held in trust for others	24,172	5%	22,925	3%	22,350	
TOTAL LIABILITIES	210,467	-13%	242,093	-12%	274,901	
Net assets:						
Unrestricted	1,156,282	19%	974,779	-1%	987,784	
Temporarily Restricted	43,540	-20%	54,484	-3%	56,350	
Permanently Restricted	241,258	3%	233,128	4%	224,150	
TOTAL NET ASSETS	1,441,080	14%	1,262,391	-0.5%	1,268,284	
TOTAL LIABILITIES AND NET ASSETS	\$ 1,651,547	10%	\$ 1,504,484	-3%	\$ 1,543,185	

Financial Ratios:

	<u>Proforma (b)</u> <u>FYE June 30, 2004</u>	<u>2004 (a)</u>	<u>2003 (a)</u>	<u>2002 (a)</u>
Debt service coverage (x)	1.88	2.85	2.81	1.42
Debt to expendable net assets (x)	0.13	0.08	0.09	0.09
Expendable net assets to operations (x)		13.97	12.63	13.11
Margin		13.3%	15.0%	5.1%

(a) Based on operating results.

(b) Recalculates 2004 audited results to include the impact of this proposed financing.

Financial Discussion:

Pomona College has experienced fluctuating revenues over the last three years primarily due to market conditions. The current year reflects significant non-operating gains from improved investment returns.

The College relies on investment income and gains on investments (endowment payout) as a primary source of its revenues. In 2004, these revenues comprised 48% of total revenues. Student tuition and fees provided the bulk of the remaining revenues at 40% with gifts, grants, contracts, and other sources making up the difference.

From 2002 to 2003, total revenues increased 14% while expenses only increased 2%. In 2004 however, expenses increased slightly more than revenues. Revenues have varied from year to year mainly because of investment performance. In the current year, total revenues are at \$99 million, up more than 18% from 2002. Non-operating activities generated considerable increases in 2004 with net realized and unrealized investment gains of over \$147 million versus losses in 2002 and 2003, at over \$90 million and over \$33 million, respectively. In addition, nearly \$17 million of net assets were released from restrictions in 2004.

The balance sheet is healthy with minimal long-term debt, sizeable net assets, good debt service coverage levels, and strong operating margins.

There was a substantive increase in the market value of the College's long-term investments in 2004 due to improved market conditions. The value went from \$1.3 billion in 2003 to \$1.4 billion in 2004, an increase of \$100 million. A comparison of the most recent year to 2003 reflects a 19% increase in unrestricted net assets. The unrestricted net assets balance in fiscal year 2004 is nearly \$1.16 billion with total net assets at over \$1.4 billion.

Debt service coverage is based on operating results averaging 2.4x over the review period. The proforma debt service coverage ratio is satisfactory at 1.88x. Historically, debt to expendable net assets ratios have been consistently low. The proforma debt to expendable net assets ratio remains low at .13x indicating that the organization manages its operations with minimal long-term debt. Operating margins have varied, but remain solid at over 13% for 2004.

Management anticipates that the College will continue to generate positive financial results due to its strong student demand and continued healthy endowment performance. The College is well-positioned to continue meeting its additional debt obligations.

III. STUDENTS, COLLEGE COSTS, AND FACULTY STATISTICS:

Students

The size of the freshman applicant pool is large and has nearly doubled in the last decade. Over the past five years the number of applicants has ranged from approximately 3,800 to approximately 4,900.

Freshman Applicant Pool

Fall Semester	Applications	Offered Admissions	New Enrollments
2000	3,804	1,125	399
2001	3,712	1,078	393
2002	4,230	967	375
2003	4,539	954	399
2004	4,927	965	394

The following table provides student enrollment and the number of degrees conferred for each of the past five academic years.

Enrollments and Degrees

Academic Year	Total Full-Time Students Enrolled (Fall)	Degrees Awarded
1999-2000	1,528	372
2000-2001	1,549	363
2001-2002	1,531	391
2002-2003	1,531	407
2003-2004	1,529	419

The College has an unusually wide geographic representation in the student body and is represented by 48 states. Approximately 63 percent of College students are from western states. Currently 35 percent are from California, 63 percent from other states, and 2 percent from foreign countries. About 97 percent of College students live on campus in College residence halls while the remaining students live within a three-mile radius of the City of Claremont.

Tuition, Fees and Room and Board

Tuition, room, board and fees for a full-time student for 2004-05 is \$38,750. A five-year summary of comprehensive fees is provided below.

Academic Year	Tuition and Fees	Room and Board	Total
2000-2001	\$24,170	\$8,170	\$32,340
2001-2002	\$25,010	\$8,950	\$33,960
2002-2003	\$25,990	\$9,600	\$35,590
2003-2004	\$27,150	\$9,980	\$37,130
2004-2005	\$28,365	\$10,385	\$38,750

Faculty

The ratio of faculty to students is approximately 1:9. The following table provides a breakdown of the faculty for each of the current and past four academic years.

Academic Year	Professors	Associate Professors	Assistant Professors	Instructors	Total
2000-2001	62	55	40	1	158
2001-2002	67	55	34	1	157
2002-2003	66	57	35	3	161
2003-2004	67	58	32	3	160
2004-2005	71	53	35	2	161

IV. BACKGROUND:

General:

The College is one of the oldest institutions of higher learning in California. The College is a private, nonprofit, nonsectarian, coeducational, Liberal Arts College with a present and planned future enrollment of about 1,400 undergraduate students on campus. The College occupies a campus of approximately 140 acres, located in the city of Claremont, 35 miles east of Los Angeles in the foothills of the San Gabriel Mountains. It is a residential college, with approximately 97 percent of its students living on campus. The students enrolled at Pomona have established records of high scholastic aptitude before entering college. The median College Board Scholastic Aptitude Test (SAT) scores for the 2004-05 freshman class were 730 verbal and 730 math.

The College was established in 1887-88 under the sponsorship of persons affiliated with the Congregational churches, ties to which were severed in 1909. In 1914, a chapter of Phi Beta Kappa, the national scholastic honorary society, was established at the College, marking the first such chapter in Southern California and the third in the State of California.

Affiliated Institutions:

The College is the founder and an independent member of an affiliated group of colleges known as The Claremont Colleges, which consists of five undergraduate colleges (Pomona, Harvey Mudd, Claremont McKenna, Scripps and Pitzer), the Claremont Graduate University (formerly The Claremont Graduate School) and the Keck Graduate Institute of Applied Life Sciences. The seven Claremont institutions jointly finance a central administration for the operation of shared programs, facilities and services, including a library system (with 2.4 million bound volumes, 15,234 periodicals and 1.45 million microtexts), a computer center, a security force, maintenance services, a chaplain's office, professionally staffed medical and counseling centers, and the Claremont Center for the Performing Arts, including Bridges Auditorium, which seats 2,500.

The seven institutions occupy contiguous campuses totaling 332 acres. Approximately 219 additional acres of land are set aside for future educational use. Each of the seven institutions is independent, having its own board of trustees, educational emphasis and tradition, faculty, student body, administrators, staff, campus, buildings and endowment. Although most of a student's courses are in his or her own college, a wide range of instruction is available without extra cost in the other six institutions.

Administration:

The College is governed by a self-perpetuating Board of Trustees, which consists of up to 42 members, including the President of the College. Current membership on the Board stands at 37. Officers of the Board are elected each year at the annual meeting in May. Members serve staggered three-year terms. The president of the Pomona College Alumni Association and the national chair for Annual Giving are ex-officio, nonvoting members of the Board. Provision is made for Honorary Trusteeship for those who have served on the Board for a number of years and who have reached normal retirement age of 70. Honorary Trustees do not have voting power.

The Board of Trustees is required by the Bylaws to meet at least four times a year. It currently meets quarterly. The Executive Committee meets on call by the Chairman of the Board or by any three members of the committee.

The Board of Trustees has legal responsibility for the management of the College, including its academic policy, land use and development, faculty and staff appointments and benefits, gift development, adoption of the College budget and supervision of financial affairs. Certain of the powers of the Board may be delegated to the Executive and other committees.

Accreditation and Affiliations:

The College is fully accredited by the Western Association of Schools and Colleges ("WASC"), of which it is a member. This accreditation was originally granted in 1949 and was last reaffirmed in June 2002. In addition, the College is a member of the Association of American Colleges; American Association of Collegiate Registrars and Admissions Officers; American Council on Education; American Council of Learned Sciences; Association of Governing Boards of Universities and Colleges; Association of Independent California Colleges and Universities; College Entrance Examination Board; Council for the Advancement and Support of Education; National Association of College and University Business Officers; Independent Colleges of Southern California; and the Consortium on the Financing of Higher Education.

Competition:

Pomona College enjoys a strong market position among residential liberal arts colleges across the country. It has been ranked among the top five liberal arts colleges across the country for the last several years.

The College belongs to the Consortium on the Financing of Higher Education (COFHE), which consists of 31 academically rigorous and selective colleges and universities across the country. Pomona College is distinctive in this group for its location on the west coast, its offerings in international studies focusing on Asia and Latin America, and its membership in the Claremont Colleges, a consortium of five contiguous undergraduate and graduate institutions in the city of Claremont. The SAT scores of scores of entering Pomona College students exceed those of other COFHE institutions.

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

<u>Issue:</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding As of 6/30/04</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing:			
CEFA Revenue Bonds – Series 1999 A	\$17,885	\$15,715	\$15,715
CEFA Revenue Bonds – Series 1999 B	16,170	14,870	0
CEFA Revenue Bonds – Series 2001	15,220	14,475	14,475
Proposed:			
CEFA Series 2005 A & B		<u>N/A</u>	<u>72,000</u>
Total		<u>\$45,060</u>	<u>\$102,190</u>

N/A – Not applicable

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 \$72,000,000 to issue tax exempt revenue bonds for Pomona College, 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.