

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

Applicant: Mills College (the "College") Oakland, California Alameda County Facility Type: Private college Accreditations: Western Association of Schools and Colleges	Amount Requested: \$28,000,000 Date Requested: April 28, 2005 Requested Loan Term: 30 years Resolution Number: 227
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Use of Bond Proceeds: Bond proceeds will be used to fund new construction projects providing student housing and a science building as well as to refinance its portion of the 1995 CEFA Pool Series A bonds. The proposed refinancing is expected to generate a net present value savings of approximately \$145,000 or 4.8% over the life of the bonds.

Type of Issue: Negotiated public offering Credit Enhancement: None Expected Credit Rating: A3 (Moody's) Underwriter: Prager, Sealy & Co., LLC Bond Counsel: Orrick, Herrington & Sutcliffe LLP	
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Financial Overview: Total revenues increased each year of the review period while expenses remained stable. Investment losses negatively impacted the income statement, but FY 2004 shows significant improvement. The current year reflects very strong debt service coverage and an 18% increase in unrestricted net assets from FY 2003. The balance sheet exhibits good liquidity with over \$1 million in cash and cash equivalents and increased contributions in FY 2004.

<u>Sources of Revenues (\$000)- FYE 06-30-04:</u> (Unrestricted Funds)	<u>Amount</u>	<u>Percent</u>
Net tuition and fees	\$14,443	35%
Investment returns allocated to operations	7,609	18%
Sales and services of auxiliary enterprises	6,501	16%
Contributions available for operations	5,679	14%
Contracts and grants	2,699	7%
Net assets released from restrictions for operations	2,649	6%
Other, net	<u>1,828</u>	<u>4%</u>
Total revenues and gains	<u>\$41,408</u>	<u>100%</u>

<u>Estimated Sources of Funds (\$000):</u>	<u>Estimated Uses of Funds (\$000):</u>
Bond Proceeds \$28,000	Construction \$24,100
Original Issue Premium <u>277</u>	Refunding 2,800
	Capitalized Interest Fund 863
	Financing Costs <u>514</u>
Total Sources <u>\$28,277</u>	Total Uses <u>\$28,277</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 \$28,000,000 to issue tax exempt revenue bonds for Mills College, subject to a bond rating of at least an "A" category by a nationally recognized rating agency and the standard bond issuance guidelines.

**STAFF SUMMARY AND RECOMMENDATION
BOND FINANCING PROGRAM**

April 28, 2005

MILLS COLLEGE (the "College")

Resolution Number: 227

- I. PURPOSE AND STRUCTURE OF FINANCING:** Bond proceeds will be used to fund new construction projects including new student housing and a science building. In addition, the College plans to refinance its portion of the 1995 CEFA Pool Series A bonds providing approximately 4.8% net present value savings or approximately \$145,000.

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

Uses of Funds:

Apartment Building Project..... \$13,100,000

Apartment style housing for students has been a priority for the College in recent years. In addition to the growing preference among undergraduates for independent living options, the College is sensitive to the housing issues of the graduate population moving into the Bay Area to attend Mills. Graduate students and resuming undergraduates are interested in living on campus in housing that is reasonably priced.

The College intends to construct five new multi-unit, two-story student apartments encompassing an area of approximately 24,000 square feet. The student housing will be located on Underwood Road and is expected to house 80 students.

Science Building Project 11,000,000

The College has determined that the future vitality of its science curriculum depends on building new facilities to bring the science disciplines together under one roof. The Chemistry and Physics Department is housed in a facility separate from the Biology and Psychology Departments. As a result, faculty members and students lack the proximity to their peers in related disciplines that tend to foster the exchange of knowledge and ideas that aid new developments in science. The configuration of existing laboratory facilities are also outdated.

The College intends to build a new two-story science addition of approximately 25,000 square feet. The new structure will be located on Post Road adjacent to the Life Science Building.

Current Refunding 2,800,000

The College intends to refinance its portion of the 1995 CEFA Pool Series A bonds to achieve a net present value savings of approximately \$145,000 or 4.8% over the life of the bonds.

Capitalized Interest Fund	863,000
Financing costs	514,000
Underwriter's Expenses	\$278,000
Cost of Issuance.....	220,000
Other	<u>16,000</u>
Total Uses of Funds	<u>\$28,277,000</u>

Financing Structure:

- Series 2005A - new money
- Series 2005B - refunding of Series 1995A Pool (forward delivery September 2005)
- Negotiated Public Offering
- Fixed Rate Debt
- 30-year term
- Expected Credit Rating: A3 - (Moody's)
- Capitalized Interest Fund

II. FINANCIAL STATEMENTS AND ANALYSIS:

MILLS COLLEGE
Statement of Activities
Unrestricted

	Fiscal Year Ended June 30,		
	2004	2003	2002
Revenues and Gains:			
Net Tuition and fees	\$ 14,442,966	\$ 12,832,343	\$ 11,740,100
Sales and services of auxiliary enterprises	6,500,931	6,397,480	6,523,654
Contributions available for operations	5,679,131	4,488,697	3,565,020
Contracts and grants	2,699,063	2,598,038	1,881,862
Investment returns allocated to operations	7,608,916	8,074,563	9,094,698
Other, net	1,828,835	1,610,254	2,053,539
Net assets released from restrictions	2,648,607	2,229,917	1,597,962
Total revenues, gains, and other support	41,408,449	38,231,292	36,456,835
Operating Expenses:			
Instruction	14,419,106	14,232,282	14,170,230
Research	1,141,178	1,316,374	931,472
Academic support	5,323,289	5,363,511	5,082,717
Student services	5,841,963	5,680,097	5,903,504
Institutional support	5,907,340	5,904,953	6,552,379
Public service	1,463,649	1,465,051	1,666,042
Auxiliary enterprises	6,083,001	5,765,210	5,857,909
Total expenses	40,179,526	39,727,478	40,164,253
Excess (deficiency) of revenues over (under) expenses before other changes in net assets	1,228,923	(1,496,186)	(3,707,418)
Other changes in net assets:			
Depreciation	(2,922,241)	(2,762,227)	(2,726,417)
Non-operating contributions	359,884	285,781	678,677
Investment (loss) return, net of allocation to operations	15,227,294	(3,112,321)	(18,241,159)
Faculty Early Retirements	(1,090,678)	-	-
Other non-operating revenue	32,120	20,997	16,395
Net assets released from restrictions for non-operations	3,916,367	2,627,946	2,379,004
Change in net assets	15,522,746	(2,939,824)	(17,893,500)
Increase (decrease) in unrestricted net assets	16,751,669	(4,436,010)	(21,600,918)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	91,096,285	95,532,295	117,133,213
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 107,847,954	\$ 91,096,285	\$ 95,532,295

MILLS COLLEGE
Statement of Financial Position

	As of June 30,		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
ASSETS:			
Cash and cash equivalents	\$ 1,129,312	\$ 562,475	\$ 294,457
Student accounts and notes receivable, net	2,690,941	2,732,880	2,571,717
Government grants and other receivables	1,799,042	1,303,377	627,710
Contributions and trusts receivable, net	25,939,861	13,480,024	18,888,517
Inventories and other assets	1,726,868	1,924,973	1,907,329
Investments	158,076,794	142,379,420	146,209,908
Property, plant, and equipment	58,969,058	57,802,999	57,612,337
TOTAL ASSETS	<u>\$ 250,331,876</u>	<u>\$ 220,186,148</u>	<u>\$ 228,111,975</u>
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 2,861,073	\$ 2,343,415	\$ 2,409,657
Other liabilities and capital lease obligations	1,344,881	1,261,745	1,307,304
Annuity and life income payable	3,002,824	3,049,001	2,864,811
Government advances for student loans	1,515,065	1,534,602	1,525,912
Bonds payable	12,230,000	12,660,000	13,075,000
TOTAL LIABILITIES	<u>20,953,843</u>	<u>20,848,763</u>	<u>21,182,684</u>
Net assets:			
Unrestricted	107,847,954	91,096,285	95,532,295
Temporarily Restricted	34,359,187	22,843,079	26,134,960
Permanently Restricted	87,170,892	85,398,021	85,262,036
TOTAL NET ASSETS	<u>229,378,033</u>	<u>199,337,385</u>	<u>206,929,291</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 250,331,876</u>	<u>\$ 220,186,148</u>	<u>\$ 228,111,975</u>

Financial Ratios:

	Proforma (a)			
	<u>FYE June 30, 2004</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Debt service coverage (x)	6.13	14.78	(2.94)	(16.24)
Debt to expendable net assets (x)	0.27	0.10	0.12	0.12
Expendable net assets to operations (x)		3.54	2.87	3.03
Margin		3.0%	-3.9%	-10.2%

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

Financial Discussion:

Total revenues increased each year of the review period while expenses remained stable. Investment losses negatively impacted the income statement, but FY 2004 shows significant improvement.

The College has a diverse revenue mix and a large endowment fund. It receives approximately 35% of its total operating revenues from undergraduate and graduate student tuition and fees. Additional support is derived from investment returns, auxiliary enterprises, gifts, government grants and contracts and other fees.

Total revenues, gains, and other support increased 14% between FY 2002 to FY 2004 resulting in a positive operating margin in FY 2004. Net tuition and fee revenue from students increased by approximately 22% over the same period, and contributions available for operations increased by approximately 53%. The 16% decrease in investment returns allocated to operations during the three-year period, is the result of the declining market's effect on the College's payout formula and the efforts to reduce the payout percent taken from endowment investments.

As of FY 2005, the College changed its approach to managing its endowment fund from the total return approach to establishing an \$8 million floor as the total draw down from the endowment. The flat \$8 million base will be increased each year by 2.5%, or the rate of inflation, whichever is greater. The goal of this method is to create a more consistent and stable stream of expendable revenue that increases over time, at least as fast as the general rate of inflation as measured by the Consumer Price Index.

Over the next three years, the College anticipates moderate growth in net tuition revenue and other college revenues. The revenues generated by the new student housing project associated with this proposed financing are expected to have no net effect on the budget since these revenues are projected to cover debt service.

The current year reflects very strong debt service coverage and an 18% increase in unrestricted net assets from FY 2003. The balance sheet exhibits good liquidity with over \$1 million in cash and cash equivalents and increased contributions in FY 2004.

In FY 2004, total assets increased approximately 9% from FY 2002. The increase is primarily due to the increased market value of investments as well as an increase in FY 2003 contributions receivable relating to the College's campaign. Total liabilities decreased by 1% from FY 2002 to FY 2004, mainly attributable to principal payments made on bond debt.

In December 2004, the College closed its capital campaign at \$131.7 million exceeding its goal of raising \$100 million with \$45 million raised in 2004 alone. The huge success of the campaign in its final year was due mainly to a renewed effort to talk to major donors about priority goals in the new strategic plan for the College. Donors responded with enthusiasm to the College's plan to expand graduate education with programs aimed at creating new options for professional training.

Debt to expendable net assets ratios have been consistently low and remain good at .27x with the addition of this proposed debt. The debt service coverage ratios have shifted dramatically over the review period largely as a result of investment losses in FY 2002 and FY 2003. However, the current year has returned to positive, producing a very strong ratio at over 14x. The proforma debt service coverage ratio remains very good at more than 6x. The College anticipates meeting its additional debt obligations.

III. STUDENTS, COLLEGE COSTS, AND FACULTY STATISTICS:

Students

The following table provides information regarding the combined freshman and transfer applicant pool over the past five years.

Freshman & Transfer (Combined)

<u>Fall Semester</u>	<u>Applications</u>	<u>Offered Admissions</u>	<u>Selectivity Ratio</u>	<u>New Enrollments</u>
2000	638	526	82%	238
2001	631	546	87%	223
2002	698	579	83%	237
2003	655	564	86%	218
2004	671	563	84%	254

Headcount, not full-time equivalent.

The following table provides information regarding the graduate applicant pool over the past five years.

Graduate Student Application and Enrollments

<u>Fall Semester</u>	<u>Applications</u>	<u>Offered Admissions</u>	<u>Selectivity Ratio</u>	<u>New Enrollments</u>
2000	570	342	60%	180
2001	578	393	68%	242
2002	651	397	61%	206
2003	660	429	65%	233
2004	709	432	61%	255

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

Enrollments and Degrees

Academic Year	Undergraduate FTE	Graduate FTE	Total FTE	Bachelor	Graduate	Total
2000-2001	671	352	1,023	203	99	302
2001-2002	707	397	1,104	195	133	328
2002-2003	706	415	1,121	241	160	401
2003-2004	678	443	1,121	212	156	368
2004-2005	730	462	1,192	N/A	*	N/A

* *Not Available*

Tuition, Fees and Room and Board

The annual tuition and fee charges for each full-time undergraduate student and the annual room and board charges under the 19-meal plan are set forth below for the past five academic years.

Academic Year	Undergraduate Tuition and Fees	Room and Board	Undergraduate Total
2000-2001	\$19,076	\$7,588	\$26,664
2001-2002	\$20,591	\$8,000	\$28,591
2002-2003	\$22,310	\$8,500	\$30,810
2003-2004	\$24,471	\$8,930	\$33,401
2004-2005	\$27,085	\$9,400	\$36,485

Faculty

In 2004-05, the College has 154 faculty members (87 full-time and 67 part-time), with 51 percent either tenured or tenure-track.

Academic Year	Tenured Track & Tenured Full-Time	Other Full-Time	Part-Time FTE	Total FTE
2000-2001	83	9	19.57	111.57
2001-2002	78	9	25.59	112.59
2002-2003	77	11	29.28	117.28
2003-2004	79	12	15.28	106.28
2004-2005	78	9	17.71	104.71

IV. BACKGROUND:

General:

Mills College is a private, primarily residential, nonprofit liberal arts college based in Oakland, CA. The College provides education and training services for undergraduate women and graduate women and men. In addition, the College performs training and other programs under grants, contracts, and similar agreements with its sponsors, primarily departments, and agencies of the United States government as well as private donors.

Administration:

The President serves as executive and educational head of the College under an appointment made by the Board of Trustees (the "Board") each year. College officers also are appointed by the Board and include the Provost and Dean of Faculty, Vice President for Finance and Administration and Treasurer, and other officers the Board may designate from time to time. The College is currently conducting a search for a new Dean of Students and expects to make an appointment effective August 2005.

Governance:

The governance of the College is entrusted to a self-perpetuating Board of Trustees whose size may vary from 20 to 47 trustees. Currently, the Board has 47 members, including President Janet L. Holmgren. There are 36 regular Trustees, one president Trustee, three alumnae Trustees, two recent graduate Trustees, and five lifetime Trustees (including two former Board chairpersons). There are a total of 23 Mills College alumnae on the Board, including 14 regular Trustees, four lifetime Trustees and five alumnae or recent graduate Trustees.

The Board meets at least three times each year to deliberate on business and policy matters for the College. Most of the deliberations occur at committee meetings that precede meetings of the full Board. The Board has nine standing committees, and meetings of each committee are led by a chair. Members of the Board's Executive Committee include the Board chair, first and second Board vice chairs, College president, and the chairs of the various committees.

The Board has full authority for the control of all the educational and business affairs of the College. Its chief duties are to: establish and approve policies on the purposes and functions of the College, approve the annual budget, authorize the construction and financing of new buildings, and approve policies regarding the investment of funds.

The Finance Committee, which presently consists of 14 trustees (including the President and the Chair of the Board) and is staffed by the Vice President for Finance and Administration and Treasurer, reviews and makes recommendations with respect to the College's annual budget and debt incurrence. The Investment Committee, composed of 12 trustees (including the President and the Chair of the Board), makes decisions regarding the investment philosophy of the institution.

Academic Programs:

The College offers a wide-ranging and complete liberal arts curriculum for a college of its size. There are sixteen academic departments at the College, organized around one or a cluster of related disciplines (such as math and computer science). In addition, there are several academic programs, such as Biochemistry and Women's Studies, that do not have departmental status. The departments and programs are grouped into five divisions: Fine Arts, Letters, Social Sciences, Natural Sciences, and Education.

At the undergraduate level, the College offers the Bachelor of Arts degree. Students can choose among 39 majors or they can design their own major in close consultation with faculty advisors. Students seeking instruction in technical or advanced courses not available at the College, can participate in cooperative programs with neighboring institutions, including UC-Berkeley.

At the graduate level, the College offers the Master of Arts degree in Dance, Education, English Literature, Interdisciplinary Computer Science, Liberal Studies, and Music; the Master of Fine Arts degree in Creative Writing, Dance, Music, and Studio Art; an MBA degree, and a doctoral degree (Ed.D.) in Educational Leadership. In addition, the College awards credentials in three graduate-level programs, and offers four types of non-degree programs, including teaching, and a certificate to students seeking preparation in the sciences for advanced study in medicine and other health fields.

In 2003-2004, the College initiated the new general education (GE) program. The program was developed by faculty to ensure the enhancement and assessment of fundamental student outcomes. It was carefully designed around a set of ten competencies and skills identified by faculty for incorporation into their teaching and the undergraduate curriculum at the College.

Accreditation and Affiliations:

The College 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 College is also a member of the Association of Independent Colleges and Universities, the American Council on Education and the Association of Governing Boards for Colleges and Universities. In July 1999, WASC reaffirmed accreditation of the College following a comprehensive review. A WASC evaluation team came to the campus in March 2004 for a special visit to review progress on areas identified for attention in the 1999 review. The visiting team found good progress in implementation of the new Ed.D. program, satisfactory budget and administrative management, and adequate enrollment. It urged the College to develop a comprehensive system of assessment, including assessment of student learning outcomes. The WASC Senior Commission approved the report of the visiting team in November 2004 and scheduled a full review for 2009-2010.

Competition:

The College competes for the enrollment of undergraduate students with:

- ◆ California’s UC system – Berkeley, in particular.
- ◆ Other private liberal arts colleges in California – for example, all the Claremont colleges.
- ◆ Other well-known women’s colleges across the country, such as Wellesly, Smith, and Mt. Holyoke.

V. CONSOLIDATED OUTSTANDING DEBT (\$000):

Issue:	Original Issue Amount	Amount Outstanding As of 06/30/04 *	Estimated Amount Outstanding after Proposed Financing
Existing:			
CEFA Revenue Bonds – Series 1995	\$3,865	\$2,965	\$0
CEFA Revenue Bonds – Series 1997	11,065	9,265	9,265
Proposed:			
CEFA Series 2005		<u>N/A</u>	<u>28,000</u>
Total		<u>\$12,230</u>	<u>\$37,265</u>

N/A – Not applicable

** Includes current portion*

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 \$28,000,000 to issue tax exempt revenue bonds for Mills College, subject to a bond rating of at least an “A” category by a nationally recognized rating agency and the standard bond issuance guidelines.