

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

Applicant:	Keck Graduate Institute of Applied Life Sciences ("KGI") 535 Watson Drive Claremont, California Los Angeles County	Amount Requested:	\$9,500,000
Facility Type:	Private College	Loan Term:	23 Years
Project Location:	Claremont, CA	Date Requested:	January 25, 2007
Accreditation:	Western Association of Schools and Colleges	Resolution Number:	242

Use of Bond Proceeds: Bond proceeds will be used to advance refund the CEFA Series 2000 bonds, providing a net present value savings of \$939,680 or 11.53%.

Type of Issue:	Negotiated Public Offering, Fixed interest rate
Credit Enhancement:	None
Credit Rating:	Baa3 (Moody's)
Underwriter:	E.J. De La Rosa & Co., Inc
Bond Counsel:	Squire, Sanders & Dempsey, LLP

Financial Status: KGI is still a relatively new graduate school (affiliated with the Claremont Colleges consortium). KGI's management has implemented budget and recruitment strategies that have led to improved operating results over the three-year review period. The balance sheet reflects increased total net assets with good debt service coverage levels. This financing request is to refinance prior CEFA debt providing a savings of approximately \$939,680 resulting in improved cash flows.

Sources of Revenue – FYE 06/30/06:
(Unrestricted Funds)

	<u>Amount</u>	<u>Percent</u>
Release & reclassification of restricted net assets	\$5,031,116	42%
Federal grants & contracts	3,645,035	31%
Investment income	1,370,635	11%
Tuition & fees, net	601,157	5%
Private gifts & grants	586,257	5%
Other	559,888	5%
Private contracts	86,599	1%
Total unrestricted revenue	<u>\$11,880,687</u>	<u>100%</u>

<u>Estimated Sources of Funds:</u>		<u>Estimated Uses of Funds:</u>	
Par amount of bonds	\$9,500,000	Advance Refunding	\$8,830,004
Original Issue Discount	(553,961)	Debt Service Reserve Fund	640,601
Existing Reserve Fund	694,287	Financing Costs	<u>231,420</u>
Existing Bond Fund	16,654		
University Contribution	<u>45,045</u>		
Total Sources	<u>\$9,702,025</u>	Total Uses	<u>\$ 9,702,025</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 \$9,500,000 for the Keck Graduate Institute of Applied Life Sciences subject to a bond rating of at least "Baa3" by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section, and the standard bond issuance guidelines.

STAFF SUMMARY AND RECOMMENDATION

Keck Graduate Institute of Applied Life Sciences (“KGI”)

January 25, 2007
Resolution Number: 242

I. PURPOSE OF FINANCING:

Bond proceeds will be used to refinance the remaining portion of the CEFA Series 2000 revenue bonds.

***Refunding* \$8,830,004**

KGI intends to advance refund the remaining portion of the CEFA Series 2000 bonds which will provide KGI with a net present value savings of approximately \$939,680 or approximately 11.5 % of the refunded bonds.

The original bond proceeds were used to reimburse KGI’s costs of securing land and buildings, renovation of the buildings, and to secure land for future campus expansion.

***Debt Service Reserve Fund*..... 640,601**

***Financing Costs* 231,420**

Underwriter Fee and Expenses\$121,750
Costs of Issuance109,670

***Total Uses of Funds* \$9,702,025**

Financing Structure:

- Public offering, fixed interest rate
- 23-year maturity
- Expected credit rating of Baa3 (Moody’s)
- General Obligation and Gross Revenue Pledge
- Deed of Trust to secure Property
- Debt Service Reserve Fund
- Financial integrity covenants regarding maintenance of liquidity and limitations on additional debt.

II. FINANCIAL ANALYSIS:

KECK GRADUATE INSTITUTE Statement of Activities (Unrestricted)

	As of June 30,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Revenues:			
Tuition and fees	\$ 2,298,581	\$ 1,738,344	\$ 1,819,684
Financial aid discount	(1,697,424)	(1,408,355)	(1,321,676)
Net tuition and fees revenue	601,157	329,989	498,008
Private gifts and grants	586,257	3,556,606	1,154,083
Private contracts	86,599	128,538	116,211
Federal grants and contracts	3,645,035	3,200,460	2,826,697
Investment income	1,370,635	1,626,539	1,440,438
Other revenue	559,888	274,458	297,430
Release and reclassification of restricted net assets	5,031,116	1,141,326	939,125
Total revenues and net assets released from restrictions	<u>11,880,687</u>	<u>10,257,916</u>	<u>7,271,992</u>
Operating Expenses:			
Instruction	1,891,708	1,808,951	1,749,946
Research	5,273,182	4,940,540	4,894,749
Academic support	720,839	674,202	518,220
Student services	1,012,358	782,268	945,157
Institutional support	3,812,554	3,692,887	3,824,040
Total expenses	<u>12,710,641</u>	<u>11,898,848</u>	<u>11,932,112</u>
(Deficit) excess of revenues (under) over expenses	(829,954)	(1,640,932)	(4,660,120)
Other changes in net assets:			
Net realized and unrealized gains on investments, net of gain appropriations	895,853	869,695	2,800,795
Redesignations of net assets	(10,000)	(30,000)	
Transfers from other Claremont Colleges	NA	NA	103,716
Change in unrestricted net assets	<u>885,853</u>	<u>(801,237)</u>	<u>(1,755,609)</u>
Cumulative effect of change in accounting principle	(16,139)	NA	NA
Change in net assets and cumulative effect of change in accounting principle	39,760	NA	NA
Unrestricted net assets, beginning of year	<u>18,688,705</u>	<u>19,489,942</u>	<u>21,245,551</u>
Unrestricted net assets, end of year	<u>\$ 18,728,465</u>	<u>\$ 18,688,705</u>	<u>\$ 19,489,942</u>

KECK GRADUATE INSTITUTE
Statement of Financial Position

	As of June 30,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS:			
Cash and cash equivalents	\$ 231,947	\$ 326,391	\$ 84,514
Accounts receivable	1,240,529	1,320,053	1,227,059
Prepaid expenses and deposits	442,506	454,844	485,408
Contributions receivable	6,630,452	6,177,333	1,437,937
Funds held in trust for others	70,643	58,914	64,959
Investments	32,915,203	29,890,502	26,306,793
Building investment, net	5,618,346	5,797,534	5,976,722
Buildings and equipment, net	12,571,863	12,987,030	13,453,616
TOTAL ASSETS	\$ 59,721,489	\$ 57,012,601	\$ 49,037,008
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 1,363,135	\$ 1,190,749	\$ 957,012
Deposits and deferred revenue	104,330	107,577	12,750
Bonds payable	7,851,349	7,991,378	8,122,420
TOTAL LIABILITIES	9,318,814	9,289,704	9,092,182
Net assets:			
Unrestricted	18,728,465	18,688,705	19,489,942
Temporarily Restricted	7,399,284	7,709,249	3,771,622
Permanently Restricted	24,274,926	21,324,943	16,683,262
TOTAL NET ASSETS	50,402,675	47,722,897	39,944,826
TOTAL LIABILITIES AND NET ASSETS	\$ 59,721,489	\$ 57,012,601	\$ 49,037,008

Financial Ratios:

	Proforma (a)			
	<u>FYE June 30,</u>			
	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Debt service coverage (x)	1.84x	3.73x	1.26x	(0.17)x
Debt to expendable net assets (x)	0.33	0.30	0.30	0.35
Expendable net assets to operations (x)		2.06	2.22	1.95
Margin		(7%)	(16%)	(64%)

(a) recalculates 2006 audited results to include the impact of this proposed financing

Financial Discussion:

KGI is still a relatively new graduate school (affiliated with the Claremont Colleges consortium).

In July 1997, KGI received a conditional \$50 million founding grant (payable over a five-year period) from the W.M. Keck Foundation to fund the new graduate school. It was anticipated that as KGI became more established, enrollments would increase and KGI would rely on net tuition as a steady source of revenue.

However, due to increasing start-up (including research) expenses and substantial tuition discounting, KGI currently relies only modestly upon net tuition and heavily on expendable giving. Since its first matriculation in 2000-01, KGI has opted to admit only the best students, as indicated by its high selectivity ratio (56% in 2005 and 68% in 2006). KGI has offered nearly full-financial aid to attract these students. Substantial tuition discounting coupled with less-than projected enrollments has resulted in low net tuition revenues.

KGI's management has implemented budget and recruitment strategies that have led to improved operating results over the three-year review period.

In order to reverse KGI's operating imbalance, the Keck Foundation has agreed to donate \$20 million, paid in annual installments until 2011. Over this payment period, KGI expects tuition and fees, endowment payout, rental income and federal research offsets to grow resulting in larger proportions of annual revenues, thus lessening their reliance on expendable giving.

In 2006, KGI hired an enrollment management consultant to increase the enrollment levels. To accomplish this, KGI will incorporate changes to direct mailing and on-site recruiting strategies, and formally involve faculty, alumni and current students in recruitment efforts.

In FY 2004 and 2005, KGI produced operating losses of \$4.6 million and \$1.6 million, respectively. With new budget and recruitment strategies in place, FY 2006 shows an 82% improvement from FY 2004. Although KGI is still exhibiting losses, management is confident that operations will continue to improve as KGI works to increase enrollment and other revenue sources.

The balance sheet reflects increased total net assets with good debt service coverage levels. This financing request is to refinance prior CEFA debt providing a savings of approximately \$939,680 resulting in improved cash flows.

From FY 2005 to FY 2006, the cash balance decreased 29%. With the proposed refinancing, KGI will experience a savings of approximately \$939,680 resulting in improved cash flows.

KGI's total net assets increased from over \$49 million in FY 2004 to \$59.7 million in FY 2006, a 22% increase over the review period. With an unrestricted and temporarily restricted net asset balance exceeding \$26 million, the proforma debt to expendable net asset balance is adequate at 0.33x. The proforma debt service coverage ratio of 1.84x indicates KGI should be able to repay the proposed debt.

III. STUDENT, COLLEGE COSTS, AND FACULTY STATISTICS:

Admissions

The following table provides information regarding the incoming graduate student applicant pool over the past 5 years.

Incoming Student Applicant Pool

<u>Fall Semester</u>	<u>Applications</u>	<u>Offered Admissions</u>	<u>Selectivity Ratio</u>	<u>New Enrollments</u>
2002	218	89	41%	38
2003	154	72	47%	25
2004	80	48	60%	31
2005	108	61	56%	36
2006	122	83	68%	45

Headcount not full-time equivalent.

The primary degree offered by KGI is the professional Master of Bioscience. The full-time program begins in August, lasts two academic years and includes a three-month summer internship between the first and second years. Admission is to the fall term only.

Enrollments and Degrees (Full-Time Equivalent)

<u>Academic Year</u>	<u>Total Full-Time Students Enrolled (Fall)</u>	<u>Degrees Awarded</u>
2002-03	66	28
2003-04	59	34
2004-05	54	22
2005-06	67	31
2006-07	84	N/A*

* *Not Available*

Tuition, Fees and Room and Board

Tuition and fees for full-time students at KGI for the 2006-07 year total \$35,390. A five-year summary of tuition is provided below. KGI does not offer any on-campus housing or dining.

<u>Academic Year</u>	<u>Tuition and Fees</u>
2002-03	\$29,950
2003-04	\$31,150
2004-05	\$32,705
2005-06	\$34,040
2006-07	\$35,390

Faculty

Below is a summary of Faculty data. KGI does not offer tenure.

<u>Academic Year</u>	<u>Tenured Full Time</u>	<u>Other Full Time</u>	<u>Part Time FTE</u>	<u>Total FTE</u>
2002-03	0	15	1	16
2003-04	0	16	2	18
2004-05	0	16	3	19
2005-06	0	17	4	21
2006-07	0	17	3	20

IV. BACKGROUND:

General:

KGI was founded in 1997 with a startup grant from the W.M. Keck Foundation and is the newest member of The Claremont Colleges. KGI's main campus of 22 acres is located just southwest of Claremont Village and The Claremont Colleges. KGI occupies two buildings, at 535 Watson Drive and 517 Watson Drive totaling approximately 74,000 square feet, which house classrooms, lecture halls, laboratories, conference rooms and offices. A third building at 555 West Arrow Highway is held as an endowment investment and rented to a third party tenant. In addition, KGI holds title to 11 acres of land just north of The Claremont Colleges, which it received as a gift from Claremont University Consortium.

Affiliated Institutions:

The College is 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 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, 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.

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:

KGI is governed by a 19-member Board of Trustees. The Board of Trustees meets four times a year in person, with additional meetings by teleconference as needed. The Board has established six committees to carry out its fiduciary and advisory responsibilities for KGI: Academic Affairs, Advancement, Audit and Risk Management, Budget and Finance, Investment, and Personnel and Compensation.

The Board of Trustees appoints the President of KGI, affirms appointments of faculty and administrative officers, exercises all corporate powers and controls all business affairs of KGI.

Accreditations and Affiliations:

Keck Graduate Institute of Applied Life Sciences is accredited by the Accrediting Commission for Senior Colleges and Universities of the Western Association of Schools and Colleges.

Academic Programs:

KGI is a selective graduate school dedicated to the development of applications from the emerging discoveries in the biosciences. The primary degree offered by KGI is the professional Master of Bioscience.

Competition:

KGI is the first and only independent graduate institution of higher education in the United States that is devoted solely to life sciences education and research. The Institute is the only institution in the nation granting a Master of Bioscience (MBS) degree. The capstone experience of the second and final year of the MBS program is the Team Masters Project (TMP), a year-long application of students' knowledge to solving a real world problem for a life sciences company.

V. OUTSTANDING DEBT:

<u>Issue Name</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding As of 6/30/06*</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing Debt:			
<i>CEFA Revenue Bonds – Series 2000</i>	\$8,900,000	\$8,150,000	-0-
Proposed:			
<i>CEFA College and University Financing Program, Series 2007</i>		<u>N/A</u>	<u>9,500,000</u>
Total		<u>\$8,150,000</u>	<u>\$9,500,000</u>

* Includes current portion of long-term debt

VI. RELIGIOUS AFFILIATION DUE DILIGENCE:

Staff has reviewed the Applicant's responses to the questions contained in the Religious Affiliation portion of the application. No information was disclosed in the questionnaire or discovered by staff to question the Applicant's compliance with the provisions of the Authority's Act relating to religious affiliation

VII. COMPLIANCE WITH ASSEMBLY BILL 1341:

Assembly Bill 1341 (Chapter 714, 2006) requires that prior to an action by the Authority Board, all applicants must provide the Authority with documentation certifying that a proposed project has complied with the California Environmental Quality Act (CEQA), or that the project is not subject to CEQA.

Assembly Bill 1341 does not require retroactive compliance with CEQA documentation in regards to refinancing. Refunding bonds are not issued to finance projects but to refinance existing bond debt.

VIII. 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.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a Resolution in an amount not to exceed \$9,500,000 for the Keck Graduate Institute of Applied Life Sciences subject to a bond rating of at least "Baa3" by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section and the standard bond issuance guidelines.