

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY**

**BOND FINANCING PROGRAM**

**EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Claremont Graduate University (“CGU”) 150 E. 10<sup>th</sup> Street Claremont, California Los Angeles County</p> <p><b>Project Site:</b> 150 E. 10<sup>th</sup> Street, Claremont, California, Los Angeles County 207 W. 6<sup>th</sup> Street, Claremont, California, Los Angeles County</p> <p><b>Facility Type:</b> Private University</p> <p><b>Accreditations:</b> Western Association of Schools and Colleges (“WASC”)</p>	<p><b>Amount Requested:</b> \$15,000,000</p> <p><b>Loan Term:</b> 30 years</p> <p><b>Date Requested:</b> July 31, 2008</p> <p><b>Resolution Number:</b> 260</p>																												
<p><b>Use of Proceeds:</b> Bond proceeds will be used to finance various capital improvement projects as well as to refinance the Provost House and acquire land for the relocation of an academic department.</p>																													
<p><b>Type of Issue:</b> Negotiated public offering, fixed rate, 30 year term</p> <p><b>Security Loan Provision:</b> General obligation pledge</p> <p><b>Credit Enhancement:</b> None</p> <p><b>Expected Rating:</b> A3 (Moody’s)</p> <p><b>Underwriter:</b> Wedbush Morgan Securities</p> <p><b>Bond Counsel:</b> Squires, Sanders and Dempsey</p>																													
<p><b>Environmental Benefits:</b> CGU is expected to incorporate several energy-efficient and environmentally beneficial designs and materials into their renovation projects including energy efficient HVAC systems as well as more energy efficient building through re-roofing and the installation of improved insulation.</p>																													
<p><b>Financial Overview:</b> CGU appears to have a steady revenue base supported by incremental increases in tuition, gifts, grants, and endowments. CGU appears to continue to have a strong balance sheet supported by over \$240 million in net assets and a pro-forma debt service coverage ratio of 13.91x.</p>																													
<table border="0" style="width: 100%;"> <tr> <td colspan="2"><b><u>Estimated Sources of funds:</u></b></td> <td colspan="2"><b><u>Estimated Uses of funds:</u></b></td> </tr> <tr> <td>Par Amount of Bonds</td> <td align="right">\$15,000,000</td> <td>Capital projects</td> <td align="right">\$9,365,000</td> </tr> <tr> <td></td> <td></td> <td>Land acquisition</td> <td align="right">4,000,000</td> </tr> <tr> <td></td> <td></td> <td>Refinance</td> <td align="right">920,000</td> </tr> <tr> <td></td> <td></td> <td>Capitalized interest</td> <td align="right">360,000</td> </tr> <tr> <td></td> <td></td> <td>Financing costs</td> <td align="right"><u>355,000</u></td> </tr> <tr> <td>Total Sources</td> <td align="right"><u>\$15,000,000</u></td> <td>Total Uses</td> <td align="right"><u>\$15,000,000</u></td> </tr> </table>		<b><u>Estimated Sources of funds:</u></b>		<b><u>Estimated Uses of funds:</u></b>		Par Amount of Bonds	\$15,000,000	Capital projects	\$9,365,000			Land acquisition	4,000,000			Refinance	920,000			Capitalized interest	360,000			Financing costs	<u>355,000</u>	Total Sources	<u>\$15,000,000</u>	Total Uses	<u>\$15,000,000</u>
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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 \$15,000,000 for Claremont Graduate University subject to a bond rating of at least an “A” category by a nationally recognized rating agency and a requirement that CGU meet the standard bond issuance guidelines for “A” rated debt.</p>																													

STAFF SUMMARY AND RECOMMENDATION

Claremont Graduate University (“CGU”)

July 31, 2008

Resolution Number: 260

I. PURPOSE OF FINANCING: CGU’s growing research activities have generated a need for additional space on campus. In order to meet those needs, CGU seeks to upgrade and renovate several facilities throughout campus and to purchase land for a new academic department. In addition, CGU plans to refinance the Provost House.

Projects ..... \$9,365,000

Upgrade and Renovations of Academic/Administrative Buildings

CGU plans to upgrade and renovate the Academic computing building, Burkle building, Art building, Harper Hall, Harper East, McManus, and Staffer. The upgrades and renovations include the following:

- upgrade HVAC equipment and EMS controls
• create usable space in an area that currently cannot be occupied
• update server room
• add a generator for emergency power
• purchase furniture, phone and server equipment
• purchase boiler
• make repairs, install carpet and paint various facilities
• install new roof
• ADA upgrades, including elevators.

In addition, CGU plans to convert rental houses for academic use and to upgrade houses currently used for academic, research, rental or administrative purposes. The work includes painting, re-roofing, upgrading HVAC and renovations to conform to ADA requirements.

Environmental benefits:

CGU is expected to incorporate several energy-efficient and environmentally beneficial designs and materials into their renovation projects including energy efficient HVAC systems as well as more energy efficient building through re-roofing and the installation of improved insulation.

Land Acquisition ..... 4,000,000

CGU also seeks to acquire land for the site of a new academic department. CGU is creating the School of Community and Global Health, which is a program transferring over from University of Southern California. Classes will begin in Spring 2009. The site is approximately four acres directly north of the campus.

<b><i>Refinance Provost House</i></b> .....	<b><i>920,000</i></b>
CGU seeks to refinance a variable rate loan into a fixed rate for the Provost House. Provost House is a residential house in which the VP Dean of Faculty resides. The 2,700 square foot house is located one block away from the south end of the campus.	
<b><i>Capitalized Interest</i></b> .....	<b><i>360,000</i></b>
<b><i>Financing costs</i></b> .....	<b><i>355,000</i></b>
Costs of Issuance.....	\$355,000
<b><i>TOTAL USES OF FUNDS</i></b> .....	<b><u><i>\$15,000,000</i></u></b>

## II. FINANCIAL ANALYSIS:

### CLAREMONT GRADUATE UNIVERSITY Statement of Activities Unrestricted

	Fiscal Year Ended June 30,		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Revenues and release of net assets:</b>			
Net tuition and fees revenue	29,104,995	27,356,754	\$ 25,804,451
Gifts and private contracts	3,632,918	3,358,281	2,795,657
Federal grants and contracts	2,367,659	2,240,068	2,182,381
Endowment payout	6,235,376	5,451,511	4,216,075
Other investment income	320,116	481,310	250,743
Other revenues	1,994,695	1,650,944	1,634,673
Auxiliary enterprises	1,137,365	1,071,854	1,067,128
Release of temporarily restricted net assets	2,596,400	2,159,834	3,478,108
Total revenues and release of net assets	<u>47,389,524</u>	<u>43,770,556</u>	<u>41,429,216</u>
<b>Expenses:</b>			
Instruction	25,789,042	21,739,327	20,768,119
Research	5,443,082	5,454,492	5,153,941
Academic support	6,069,730	5,371,840	4,785,938
Student services	2,120,426	2,011,184	1,809,077
Institutional support	7,074,031	7,355,753	6,877,785
Student aid	648,440	623,756	549,108
Auxiliary enterprises	1,249,285	1,046,309	1,222,689
Total expenses	<u>48,394,036</u>	<u>43,602,661</u>	<u>41,166,657</u>
<b>Other changes in net assets:</b>			
Actuarial adjustment of life income and annuity liabilities	-	-	(57,469)
Redesignation of net assets	178,979	163,484	191,820
Other comprehensive pension gain (loss)	(175,804)	310,232	(7,472)
Fair value adjustment for land purchase	5,368,310	-	-
Net realized and unrealized gains on investments, net	30,241,735	15,318,654	9,446,958
Total net assets	<u>35,613,220</u>	<u>15,792,370</u>	<u>9,573,837</u>
Cumulative effect of change in accounting principle	-	(535,232)	-
<b>Increase in net assets</b>	<b>34,608,708</b>	<b>15,425,033</b>	<b>9,836,396</b>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>94,525,065</u>	<u>79,100,032</u>	<u>69,263,636</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 129,133,773</u>	<u>\$ 94,525,065</u>	<u>\$ 79,100,032</u>

**CLAREMONT GRADUATE UNIVERSITY**

**Statement of Financial Position**

	<u>As of June 30,</u>		
	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>ASSETS:</b>			
Cash	\$ 561,657	\$ 19,440	\$ 887,694
Accounts receivable, net	1,534,839	1,319,516	1,775,214
Prepaid expenses and deposits	1,112,057	741,399	615,981
Contributions receivable, net	9,508,729	9,762,761	10,496,456
Notes receivable, net	1,938,224	1,873,509	3,910,613
Funds held in trust for others	419,301	413,543	374,509
Investments	248,153,089	180,039,369	156,140,805
Plant facilities, net	35,931,367	25,249,540	23,970,173
<b>TOTAL ASSETS</b>	<b><u>\$ 299,159,263</u></b>	<b><u>\$ 219,419,077</u></b>	<b><u>\$ 198,171,445</u></b>
<b>LIABILITIES AND NET ASSETS:</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	3,842,865	\$ 3,467,150	\$ 3,248,193
Deposits and deferred revenue	3,189,167	3,503,552	3,285,224
Liability for staff retirement plan	300,501	241,124	556,575
Life income and annuities payable	4,329,468	4,567,512	4,989,783
Notes and bonds payable	43,337,427	5,965,182	8,120,248
Government advances for student loans	1,713,773	1,731,266	1,780,735
Asset retirement obligation	672,956	624,243	-
<b>TOTAL LIABILITIES</b>	<b><u>57,386,157</u></b>	<b><u>20,100,029</u></b>	<b><u>21,980,758</u></b>
<b>Net assets:</b>			
Unrestricted	129,133,773	94,525,065	79,100,032
Temporarily restricted	4,801,038	5,457,531	4,628,203
Permanently restricted	107,838,295	99,336,452	92,462,452
<b>TOTAL NET ASSETS</b>	<b><u>241,773,106</u></b>	<b><u>199,319,048</u></b>	<b><u>176,190,687</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 299,159,263</u></b>	<b><u>\$ 219,419,077</u></b>	<b><u>\$ 198,171,445</u></b>

**Financial Ratios:**

	<b>Proforma (a)</b>			
	<b><u>FYE June 30, 2007</u></b>			
Debt service coverage (x)	13.91	43.43	5.72	22.55
Debt to expendable net assets (x)	.44	.33	.09	.13
Expendable net assets to operations (x)		2.76	2.29	2.04
Margin (%)		(2.1)	.4	.6

(a) Recalculates 2007 audited results to include the impact of this proposed financing.

### **Financial Discussion:**

**CGU appears to have exhibited solid results supported by a steady revenue base from net tuition and fees, donations/gifts, grants/contract and endowment payout.**

CGU appears to continue exhibiting steady revenue growth over our review period. Revenues consist primarily of net tuition and fees. Other revenue sources include donation/gifts, grants/contracts and endowment payouts, providing CGU a solid, well-diversified revenue base. CGU's academic operations remained solid during the course of the last three fiscal years. Net tuition and fee revenues for fiscal year 2007 totaled approximately \$29.1 million and have increased 12.6% from fiscal year 2005, which totaled \$25.8 million.

Expenses increased slightly in each of the three fiscal years from \$41.1 million in fiscal year 2005 to \$48.3 million in fiscal year 2007, an increase of 17.5%. The increase in total expenses is commensurate with increases in net student tuition and fees, grants/contracts, and endowment support. Expense increases are largely centered in instruction, research, academic support, student services and institutional support.

CGU is well positioned for managed revenue growth in three key areas over the next few years. The strength of CGU lies in its successful fund raising track record, combined with a new research funding activity, all supported foundationally with a great diversity of academic program offerings which isolate the market risk to CGU as demand for programs change over time.

**CGU appears to continue having a strong balance sheet with good liquidity.**

CGU's balance sheet continues to grow and appears to indicate positive operating results and earnings from its investment portfolio. CGU's investments reached over \$248.1 million for fiscal year 2007. CGU's debt to expendable net assets remained steady and with this proposed financing it will increase slightly, but is still acceptable with a proforma of approximately .44x. Debt service coverage is very strong 43.43x and with the proposed debt, the proforma debt service coverage remains strong at 13.91x indicating that CGU should be able to handle the additional debt obligation.

### **III. BACKGROUND:**

#### **General:**

Founded in 1925, CGU is an independent institution devoted entirely to graduate study. CGU's 2,000 full-time and part-time students are enrolled in degree programs in 24 different fields of study. Students at CGU are encouraged to pursue personal academic interests and research agendas even when they transcend the traditional boundaries between individual departments.

CGU prepares a diverse group of outstanding individuals to assume leadership roles in the worldwide community through teaching, research, and practice in selected fields. Education at CGU is student-centered, characterized by personal attention and flexibility. CGU emphasizes human-scale instruction—small classrooms, accessible faculty, close faculty-student interaction, and student involvement in the design of individualized courses of study. CGU's unique status as a comprehensive independent graduate institution enables it to provide students with a dynamic and supportive environment in which to excel.

CGU is a member of the Claremont Consortium, with undergraduate Pomona, Scripps, Claremont McKenna, Harvey Mudd, and Pitzer colleges and the Keck Graduate Institute. Located on contiguous campuses 35 miles east of Los Angeles in the city of Claremont in the foothills of the San Gabriel Mountains, the member institutions are academically independent, but share central programs and services. Thus, CGU is able to combine the intimacy of a small university with the facilities and academic breadth of a mid-sized university.

CGU offers advanced study in the humanities, fine arts, social sciences, psychology, education, management, executive management, information systems, botany, religion and mathematics. Its curriculum successfully integrates theory with practice and traditional disciplines with newer professional programs.

#### **Administration:**

CGU is governed by a self-perpetuating Board of Trustees, not to exceed 45 members including the President of CGU. Trustees are elected to three-year terms and approximately one-third of Trustees are elected annually.

The President of CGU is appointed by the Board of Trustees and, as chief executive officer, is charged with the principal responsibility for administration of CGU. All other officers of CGU are appointed by the Board of Trustees but are subject to the day-to-day direction of the President of CGU.

#### **Accreditations and Affiliations:**

CGU is 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 most recent WASC visit was in March 2002. The next scheduled WASC visit is in 2012, as CGU was awarded a full ten-year accreditation, the maximum allowed

#### **Academic Programs:**

Several years ago, CGU underwent a profound reorganization, in which academic units were grouped into eight schools, and responsibility center management was implemented. This reorganization was intended to facilitate coordination of curricular planning among related disciplines and specialties, while protecting the integrity of individual disciplines. In addition, it was

meant to enhance the potential for curricular innovation, co-teaching, and creative experimentation by bringing faculty and students in related disciplines into closer and more systematic contact with one another.

CGU offers over 40 degrees and certificates in its School of Educational Studies, School of Organization and Behavior Sciences, School of Politics and Economics, School for the Arts and Humanities, School of Information Systems and Technology, School of Religion, School of Mathematical Sciences and the Peter F. Drucker and Masatoshi Ito Graduate School of Management, as well as in its program in Botany, Applied Women’s Studies and Africana Studies.

**IV. OUTSTANDING DEBT:**

<b>Issue</b>	<b>Original Amount</b>	<b>Amount Outstanding As of 6/30/07</b>	<b>Amount Outstanding after Proposed Financing</b>
<b>Existing:</b>			
Commerical loan, mortgage 2006	\$944,000	\$930,702	\$-0-
Term note, mortgage 2006	796,000	790,712	790,712
CEFA, Series 1999A	7,180,000	4,480,000	4,480,000
CEFA, Series 2007A	36,000,000	36,000,000	36,000,000
<b>Proposed:</b>			
<b>CEFA Revenue Bonds, Series 2008</b>		_____	<b><u>15,000,000</u></b>
<b><i>Total</i></b>		<b><u>\$42,201,414</u></b>	<b><u>\$56,270,712</u></b>

**V. DUE DILIGENCE:**

Due diligence has been completed with regard to the following items:

- Religious Due Diligence
- Legal Review
- Compliance with Section 94212(b) of the Education Code relating to California Environmental Quality Act

**VI. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a Resolution in an amount not to exceed \$15,000,000 for Claremont Graduate University subject to a bond rating of at least an “A” category by a nationally recognized rating agency and meeting the standard bond issuance guidelines for “A” rated debt.