

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY  
BOND FINANCING PROGRAM**

**EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Loyola Marymount University ("LMU") 1 LMU Drive, Suite 4900 Los Angeles, CA 90045-2659 Los Angeles County</p> <p><b>Facility Type:</b> Private University</p> <p><b>Project Location:</b> Los Angeles, CA</p> <p><b>Accreditation:</b> Western Association of Schools and Colleges</p>	<p><b>Amount Requested:</b> \$74,000,000</p> <p><b>Date Requested:</b> October 30, 2008</p> <p><b>Resolution Number:</b> 263</p>																
<p><b>Use of Proceeds:</b> Proceeds will be used to refinance an existing line of credit, which was previously used to provide funds to redeem outstanding CEFA Series 2001B and 2004 Bonds.</p>																	
<p style="text-align: center;"><b>Type of Issue:</b> Negotiated public offering, 40-year maturity, variable interest rate</p> <p style="text-align: center;"><b>Security Loan Provision:</b> Gross Revenue Pledge</p> <p style="text-align: center;"><b>Credit Enhancement:</b> Anticipated Letter of Credit</p> <p style="text-align: center;"><b>Underlying Credit Rating:</b> A2 (Moody's)</p> <p style="text-align: center;"><b>Senior Manager:</b> Morgan Stanley</p> <p style="text-align: center;"><b>Bond Counsel:</b> Orrick, Herrington &amp; Sutcliffe LLP</p>																	
<p><b>Environmental Benefits:</b> Because this is a refinancing of existing debt, environmental benefits are not applicable to this financing.</p>																	
<p><b>Financial Overview:</b> LMU has demonstrated modest operating profits. LMU has a substantial amount of unrestricted investments to support its operations. LMU demonstrates a moderate amount of leverage, and an adequate ability to pay debt service.</p>																	
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Par Amount of Bonds	\$74,000,000	Refinancing Line of Credit	\$73,373,637														
		Financing Cost	626,363														
Total Sources	\$74,000,000	Total Uses	\$74,000,000														
<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 \$74,000,000 for Loyola Marymount 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" category rated debt.</p>																	

**STAFF SUMMARY AND RECOMMENDATION**

**Loyola Marymount University (“LMU”)**

October 30, 2008

Resolution Number: 263

**I. PURPOSE OF FINANCING:** Loyola Marymount University (LMU) has faced an unanticipated financial burden, associated with significant interest rate increases, due to recent dramatic changes in the auction rate bond markets. LMU is seeking to quickly refund their debt in order to extricate themselves from untenable debt service obligations, and to better position themselves with a more affordable and stable rate structure and to also remove the credit enhancement on the existing bonds.

**Refinancing Line of Credit ..... \$73,373,637**

LMU plans to use bond proceeds to refinance an existing line of credit, which was previously used to redeem outstanding CEFA Series 2001B and 2004 Bonds. As a result of disruptions in the auction rate securities market, both series of bonds have experienced failed auctions, exposing LMU to interest rates far above market levels.

In order to eliminate this exposure to high interest rates, LMU has executed a taxable line of credit with Bank of America N.A. in order to provide funds to redeem the outstanding CEFA Series 2001B and 2004 Bonds. LMU intends to issue these variable rate demand bonds in order to refinance the Bank of America line of credit, returning LMU to a long-term variable rate debt structure thereby reducing their costs of borrowing.

**Financing Costs..... \$626,363**

Cost of Issuance.....\$478,363  
Underwriter’s Fee.....\$148,000

***TOTAL USES OF FUNDS ..... \$74,000,000***

## II. FINANCIAL ANALYSIS:

**Loyola Marymount University**  
**Statement of Activities (\$000)**  
**Unrestricted**

	Year Ended May 31,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>Revenues:</b>			
Tuition and fees, net	\$ 199,609	\$ 189,520	\$ 175,170
Investment return designated for operations	16,439	15,535	16,738
Contributions & pledges	7,585	7,753	6,574
Grants	7,280	6,649	6,130
Auxiliary enterprise revenue	29,882	28,248	24,229
Other revenue	5,813	5,262	4,146
Net assets released from restrictions	1,162	895	591
Total revenues	<u>267,770</u>	<u>253,862</u>	<u>233,578</u>
<b>Expenses:</b>			
Instruction & research	107,889	102,664	97,853
Academic support	20,195	13,303	7,893
Library	10,030	9,342	10,180
Student services	44,201	41,079	33,195
Institutional support	46,643	50,688	51,762
Auxiliary enterprises	25,506	20,641	21,743
Total expenses	<u>254,464</u>	<u>237,717</u>	<u>222,626</u>
Increase in operating net assets	<u>13,306</u>	<u>16,145</u>	<u>10,952</u>
<b>Non-operating Revenues and Expenses:</b>			
Contributions for non-operating purposes	78	60	-
Contributions for acquisition of capital assets	8,634	8,600	1,307
Investment gain after amounts designated for operations	4,041	55,704	23,980
Net loss/gain on interest rate swap agreement	(185)	596	576
Other non-operating expenses	0	(36)	(229)
Net assets released from restriction	6,007	13,076	620
Reclassifications	(646)	(25)	(205)
Increase in non-operating revenues & expenses	<u>17,929</u>	<u>77,975</u>	<u>26,049</u>
Cumulative effect of change in accounting principle	620	-	(984)
Change in net assets	31,235	94,120	36,017
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>551,082</u>	<u>456,962</u>	<u>420,945</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 582,937</u>	<u>\$ 551,082</u>	<u>\$ 456,962</u>

**Loyola Marymount University**  
**Statement of Financial Position (\$000)**

	As of May 31,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 21,947	\$ 29,746	\$ 19,178
Accounts receivables, tuition & fees	3,582	2,403	707
Other accounts receivables	7,701	7,045	3,905
Pledges receivable, net	30,695	25,677	29,095
Notes receivable	33,179	31,163	30,142
Investments	450,121	434,337	366,450
Prepaid expenses, deferred charges & other assets	8,427	8,571	7,446
Plant properties, net	451,231	414,699	403,787
Total assets	\$ 1,006,883	\$ 953,641	\$ 860,710
<b>LIABILITIES AND NET ASSETS:</b>			
Accounts payable	\$ 36,276	\$ 27,062	\$ 23,897
Accrued payroll expense	9,515	8,145	6,983
Accrued interest expense	22,101	19,572	17,018
Deferred revenue & deposits	13,010	10,685	11,789
Debt outstanding	162,974	168,867	175,598
Loan funds returnable to donor	1,152	1,152	1,152
U.S. Government grants refundable	11,166	11,346	11,513
Annuity liabilities and assets held for others	4,662	4,796	4,167
Total liabilities	260,856	251,625	252,117
<b>Net assets:</b>			
Unrestricted	582,937	551,082	456,962
Temporarily restricted	23,772	23,553	32,315
Permanently restricted	139,318	127,381	119,316
<b>TOTAL NET ASSETS</b>	746,027	702,016	608,593
<b>TOTAL LIABILITIES AND NET ASSETS</b>	\$ 1,006,883	\$ 953,641	\$ 860,710

Financial Ratios

	<b>Proforma (a)</b>			
	<b><u>FYE 5/31/08</u></b>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Debt service coverage (x)	3.26	4.30	9.70	4.66
Debt to expendable net assets (x)	0.39	0.27	0.29	0.36
Expendable net assets to operations (x)		2.38	2.42	2.20
Margin (%)		5	6	5

(a) Recalculates 2008 results to include the impact of this proposed financing

### **Financial Discussion:**

**LMU has demonstrated modest operating profits. LMU has a substantial amount of unrestricted investments to support its operations.**

LMU has produced positive operating profits in the three year review period, with increases in tuition and other revenues, such as grants and auxiliary enterprise revenue, which are in line with expenses. Net tuition and fees revenues at LMU have increased by approximately 14% which is the primary result of increased tuition and fees rates. According to LMU's management, during the current economic climate, tuition and fee increases will be moderate in comparison to the previous three fiscal years. Thus, LMU will continue to explore additional revenue opportunities in order to reduce its reliance on tuition and fees.

Total unrestricted net assets increased from approximately \$456.9 million in FY 2006 to approximately \$582.9 million in FY 2008, a 28% increase, largely due to the LMU's continued capital campaign which is targeted to raise endowment, building and current support funds. The \$380 million campaign is scheduled to close in 2011. At present date, LMU has raised approximately \$272 million towards its goal.

**LMU demonstrates a moderate amount of leverage, and an adequate ability to pay debt service.**

Cash and cash equivalents increased by 14% over the review period, from \$19.1 million in FY 2006 to \$21.9 million in FY 2008. Additionally, total net assets have grown from \$608.6 million in FY 2006 to \$746 million in FY 2008, or 23%. Contributing to this growth was an increase in investment, which can be attributed to significant contributions from LMU's Capital Campaign, as well as new pledge payments and a moderate increase in tuition and fees.

LMU's balance sheet continues to grow, showing positive operating results, demonstrated by the earnings from its investment portfolio as LMU's investments reached over \$450 million for FY 2008. LMU's debt service coverage is a strong 4.30x and with the proposed debt, the proforma debt service coverage ratio remains strong at 3.26x indicating LMU's ability to support the additional debt.

### **III. BACKGROUND:**

#### **General:**

Loyola Marymount University is a nonprofit, coeducational, privately endowed university emphasizing undergraduate liberal arts as well as professional and graduate education. The University is the successor to St. Vincent's College, which was founded in 1865. In 1918, the institution was incorporated as Loyola College of Los Angeles by the members of the Society of Jesus and gained university status in 1930. The Marymount College for Women, founded in 1933, was consolidated with Loyola University in 1973 to become Loyola Marymount University. The University has two major campuses: the 162-acre Westchester campus and the Loyola Law School campus.

#### **Administration:**

A self-perpetuating Board of Trustees comprised of 43 members serving three-year terms governs the University. The terms of approximately one-third of the members expire each year, and all officers of the Board are elected annually.

#### **Accreditation and Affiliations:**

The University is accredited by the Western Association of Schools and Colleges. It also has professional accreditation or approval from the following organizations: Accreditation Board for Engineering and Technology, Inc. (undergraduate); American Art Therapy Association; American Assembly of Collegiate Schools of Business; American Bar Association; American Chemical Society; Association of American Law Schools; California State Board of Education; the Committee of Bar Examiners of the State of California; International Association of Counseling Services; National Association of Schools of Art and Design Commission on Accreditation; National Association of Schools of Dance; National Association of Schools of Theatre; National Council for Accreditation of Teacher Education; and the State Commission on Teacher Credentialing.

#### **Academic Programs:**

The University's educational program is organized into four undergraduate colleges and the Graduate and Law Schools. The colleges and schools of Liberal Arts, Communication and Fine Arts, Education, Film and Television, Business Administration, and Science and Engineering comprise the undergraduate division of the University. Graduate degrees are awarded in the Law School and in selected majors in each of the colleges and in the Department of Education. The University offers 72 bachelor and masters degree programs, in addition to primary and secondary education credential programs, and an aerospace studies program leading to a commission in the United States Air Force. The University also offers continuing education and summer session courses.

#### IV. OUTSTANDING DEBT (\$000) :

<u>Issue:</u>	<u>Original Issue Amount</u>	<u>Amount Outstanding as of 05/31/08</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
<b>Existing Debt:</b>			
CEFA, Series 1997	\$ 19,295	\$ 12,065	\$ 12,065
CEFA, Series 1999	62,143	4,753	4,753
CEFA, Series 2001A	75,449	72,724	72,724
CEFA, Series 2001B	30,600	30,600	0 *
CEFA, Series 2004	49,825	42,275	0 *
<b><i>Proposed:</i></b>			
<b>CEFA, Series 2008</b>			<b>74,000</b>
Total		<b>\$ 162,417 **</b>	<b>\$ 163,542</b>

\* CEFA Series 2001B and 2004 Bonds will be redeemed with taxable line of credit from Bank of America.

\*\* Does not include unrealized loss on swap agreement and unamortized discount on CEFA borrowings.

#### 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 – California Environmental Quality Act

#### VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve a Resolution in an amount not to exceed \$74,000,000 for Loyola Marymount 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” category rated debt.