

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

<p><b>Applicant:</b> Claremont McKenna College ("CMC") Claremont, CA Los Angeles County</p> <p><b>Facility Type:</b> Private College</p> <p><b>Project Location:</b> Claremont, CA</p> <p><b>Accreditation:</b> Western Association of Schools and Colleges</p>	<p><b>Amount Requested:</b> \$85,000,000</p> <p><b>Date Requested:</b> December 4, 2008</p> <p><b>Resolution Number:</b> 261</p>
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**Use of Proceeds:** Bond proceeds will be used to finance various capital improvement projects, including the construction of an academic and administrative building and the renovation of several existing facilities.

<p><b>Type of Issue:</b> Negotiated public offering, 30-year term, fixed &amp;/or variable interest rates</p> <p><b>Security Loan Provision:</b> General obligation pledge</p> <p><b>Credit Enhancement:</b> None</p> <p><b>Underlying Credit Rating:</b> Aa1 (Moody's)</p> <p><b>Senior Manager:</b> Prager, Sealy &amp; Co., LLC</p> <p><b>Bond Counsel:</b> Orrick, Herrington &amp; Sutcliffe, LLP</p>	
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**Environmental Benefits:** It is CMC's policy to design, build, and pursue certification of all new buildings at a LEED Silver level or higher. Significant building renovation projects will also apply LEED standards throughout the course of the project. Similarly, CMC will apply principles of sustainability and related best practices in its daily maintenance and operation.

**Financial Overview:** CMC's recent operations have exhibited moderate operating profits supported by a growing revenue base from net tuition and fees and private gifts and grants. CMC's financial strength appears to be sound with good liquidity and significant financial resources.

<u>Sources of funds:</u>		<u>Uses of funds:</u>	
Par Amount of Bonds	\$85,000,000	Project Fund	\$75,000,000
Original Issue Discount	(2,499,850)	Capitalized Interest	6,491,650
		Financing Costs	<u>1,008,500</u>
Total Sources	<u>\$82,500,150</u>	Total Uses	<u>\$82,500,150</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 \$85,000,000 for Claremont McKenna College 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.

**STAFF SUMMARY AND RECOMMENDATION**

**Claremont McKenna College (“CMC”)**

December 4, 2008

Resolution Number: 261

**I. PURPOSE OF FINANCING:** CMC intends to use bond proceeds to finance the construction, acquisition, and renovation of several campus facilities.

**Projects ..... \$75,000,000**

Academic and Administrative Building (Kravis Center) – CMC plans to construct a 160,000 square foot facility to relieve overcrowded conditions of existing faculty offices as well as to provide modern classrooms to the growing student population. The Kravis Center will provide approximately 80,000 square feet of classroom and office space and approximately 80,000 square feet of underground parking and outside courtyard spaces.

Tennis Center and Recreation Athletic Field – The new tennis center will provide 12 competition and recreation courts, a clubhouse, coaching space and a classroom. This construction will replace existing courts and will allow CMC to host major tennis tournaments. A new recreation athletic field will be constructed adjacent to the tennis center and will be used for intramural and club sports programs.

Auen Hall and Fawcett Hall Renovation – Renovations to these two dormitories include seismic updates, remodeled bathrooms, new carpet, paint and other surface materials.

Ducey Gymnasium Renovation – CMC plans to renovate Ducey Gymnasium to provide a modern athletic space for both varsity competition and general fitness and recreation for their students, staff and faculty.

Bauer North Renovation– Bauer North currently houses administrative offices, meeting spaces and the Economics Department. Major renovations are needed for the removal of asbestos and seismic updates.

Faculty and Staff Housing Acquisition – CMC plans to acquire and renovate homes just south of the main campus for its staff and faculty rental program.

Marian Miner Cook Athenaeum Renovations – Plans to renovate the interior and exterior of the Athenaeum as well as update audio-visual equipment will provide a modernized space for lectures and other special events for the students and community.

Seaman Hall Renovations – CMC plans to renovate the academic building to provide an updated space for the Psychology Department.

*Environmental Benefits:*

It is CMC's policy to design, build, and pursue certification of all new buildings at a LEED Silver level or higher. Significant building renovation projects will also apply LEED standards throughout the course of the project. Similarly, CMC will apply principles of sustainability and related best practices in its daily maintenance and operation.

<b>Capitalized Interest .....</b>	<b>6,491,650</b>
<b>Financing costs.....</b>	<b>1,008,500</b>
Underwriter Fee and Expenses .....	\$722,500
Costs of Issuance.....	<u>286,000</u>
 <b><i>TOTAL USES OF FUNDS</i> .....</b>	 <b><u>\$82,500,150</u></b>

## II. FINANCIAL ANALYSIS:

**Claremont McKenna College**  
**Statement of Activities**  
**Unrestricted (\$000s)**

	Fiscal Year Ended June 30,		
	2008	2007	2006
<b>Operating activities:</b>			
<b>Revenues:</b>			
Net student revenues	\$ 36,650	\$ 35,224	\$ 32,591
Private gifts & grants	12,188	6,063	4,492
Federal grants	1,270	902	697
Private contracts	558	345	290
Spending policy income	8,583	6,387	14,597
Other investment income	2,813	2,251	1,758
Other revenues	1,893	1,425	1,329
Release of net assets			
Operations	4,516	4,513	4,083
Restricted spending policy income	12,878	10,888	2,939
Annuity & life income	1,822	263	2,072
Total revenues	83,171	68,261	64,848
<b>Expenses:</b>			
Instruction	22,535	21,799	21,305
Research	6,272	5,620	5,516
Academic support	6,173	5,121	4,887
Student services	9,684	9,665	9,513
Institutional support	15,574	13,504	10,929
Auxiliary enterprises	12,145	8,099	7,770
Total expenses	72,383	63,808	59,920
Increase in net assets from operating activities	10,788	4,453	4,928
<b>Other changes in net assets:</b>			
Realized & unrealized gains net of spending allocation	(21,308)	76,978	31,069
Matured annuity & life income agreements	-	-	-
Other	(181)	(91)	(28)
Staff retirement plan comprehensive loss	(394)	(275)	514
Transfers & redesignations between net asset categories	328	(87)	(61)
Change in net assets before cumulative effect of			
change in accounting principle	(10,767)	80,978	36,422
Change in accounting principle	-	-	(547)
<b>Change in unrestricted net assets</b>	<b>(10,767)</b>	<b>80,978</b>	<b>35,875</b>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	351,802	270,824	234,949
UNRESTRICTED NET ASSETS, END OF YEAR	\$ 341,035	\$ 351,802	\$ 270,824

**Claremont McKenna College**  
**Statement of Financial Position (\$000s)**

	As of June 30,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
<b>ASSETS:</b>			
Cash	\$ 860	\$ 749	\$ 640
Accounts & notes receivable	17,642	17,208	16,137
Preapid expenses & deposits	2,262	2,458	1,813
Contributions receivable	186,331	31,671	3,275
Contributions receivable from revocable trusts	2,681	8,196	8,893
Beneficial interest in trusts	4,424	18,139	11,833
Investments	633,729	620,820	488,862
Plant facilities	91,333	65,621	62,994
Total assets	\$ 939,262	\$ 764,862	\$ 594,447
<b>LIABILITIES AND NET ASSETS:</b>			
Accounts payable and accrued liabilities	\$ 13,569	\$ 4,597	\$ 3,759
Funds held in trust for others	2,516	4,372	3,515
Obligations under securities lending program	-	7,436	15,742
Deposits and deferred revenues	1,543	1,384	1,029
Staff retirement liability	529	481	399
Life income & annuities payable	45,756	40,072	38,977
Bonds payable	61,010	61,974	31,827
Government advances for student loans	3,182	3,153	3,106
Refundable advances from revocable trusts	2,681	8,196	8,893
Asset retirement obligation	722	691	664
Total liabilities	131,508	132,356	107,911
<b>Net assets:</b>			
Unrestricted	341,035	351,802	270,824
Temporarily restricted	225,499	66,840	34,506
Permanently restricted	241,220	213,864	181,206
<b>TOTAL NET ASSETS</b>	<b>807,754</b>	<b>632,506</b>	<b>486,536</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 939,262</b>	<b>\$ 764,862</b>	<b>\$ 594,447</b>

Financial Ratios

	<b>Proforma</b>			
	<b>FYE 6/30/08</b>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Debt service coverage (x)	(0.87) (a)(b)	(2.36)	33.68	17.26
Debt to expendable net assets (x)	0.26	0.11	0.15	0.10
Expendable net assets to operations (x)		7.83	6.56	5.10
Margin		13%	7%	8%

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

(b) Using 2008 operating results amounts to a debt service coverage ratio of 2.19x

## **Financial Discussion:**

**CMC's recent operations have exhibited moderate operating profits supported by a growing revenue base from net tuition and fees and private gifts and grants.**

CMC exhibited moderate operating growth over the review period. In FY 2008 total unrestricted revenues were \$83.1 million, a 28% increase from \$64.8 million in FY 2006. Key factors accounting for this revenue growth include the consistent growth of net tuition and fees and increased private gifts and grants.

Net tuition and fees represents 44% of CMC's total revenue base, providing CMC with liquidity and flexibility. Net tuition and fee revenue has grown an average of 6% over the past three years. As a result of tuition, room and board charge increases and an increase in the amount of financial aid awarded, net tuition and fees equaled \$36.7 million in FY 2008, up 13% from \$32.6 million in FY 2006.

Total unrestricted private gifts and grants increased nearly \$7.7 million which is attributed to new gifts at the beginning of its capital campaign.

CMC's operating gains were offset by \$21 million in unrestricted non-operating losses comprised mostly from realized and unrealized investment gains and losses, net of CMC's investment income spending allocation. The unrealized losses on investments can be attributed to fluctuations in market value. FY 2008 shows a negative change in unrestricted net assets and total unrestricted net assets of \$341 million, a 26% growth since FY 2005.

Expenses increased 13% and were primarily due to the increases in institutional support, which represents new positions and other expenses related to preparation for CMC's capital campaign.

**CMC's financial strength appears to be sound with good liquidity and significant financial resources.**

Total net assets have grown 66% over the review period, from \$486.5 million in FY 2006 to \$807.8 million in FY 2008. Contributing to this growth were increases from new gifts and contributions stemming from a \$600 million Capital Campaign CMC announced in March 2008.

Debt to expendable net assets have remained low. With unrestricted and temporarily restricted net assets balance exceeding \$566 million, the proforma debt to expendable net assets is a low 0.25x. Although the proforma debt service coverage ratio is a negative 0.87x, this is directly related to the realized and unrealized investments losses. Based strictly on operational results, the proforma operating debt service coverage ratio would be a solid 2.19x.

### **III. BACKGROUND:**

#### **General:**

CMC is a nonprofit, privately endowed, co-educational liberal arts college with an emphasis on economics, government and international relations. CMC was founded in 1946 as Claremont Men's College and became co-educational in 1976, then was renamed in 1981 in honor of founding trustee Donald C. McKenna.

CMC's mission is to prepare students for leadership roles in business, government and the professions. A focused mission, prominent faculty, the Marian Miner Cook Athenaeum speaker series, a Washington, D.C. internship program, a community service internship program, the Children's School at Claremont McKenna College, and nine on-campus research institutes are a few of many distinguishing features of CMC. The campus consists of approximately 50 acres and 39 buildings.

CMC is a member of the Claremont Colleges, a consortium comprised of five undergraduate colleges and two graduate schools sharing common resources that rival other major universities. Modeled on the Oxford system in England, the consortium is located 35 miles east of Los Angeles at the foot of the San Gabriel Mountains.

#### **Administration:**

CMC is governed by a self-perpetuating Board of Trustees composed of not less than 25 and not more than 46 voting trustees. As of December 3, 2008, there are 41 voting trustees, including 36 regular trustees, three alumni trustees and two ex-officio trustees. Regular trustees are elected to renewable, three-year terms, and approximately one-third of the regular trustees are elected annually. Alumni trustees are elected to a single three-year term. The ex-officio trustees, who are the President of the Alumni Association and the President of the Parents Network, each serve a one-year term. In addition to the voting trustees, the Board of Trustees also has 17 non-voting life trustees.

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

CMC is accredited by the Western Association of Schools and Colleges (WASC) and the Accrediting Commission for Senior Colleges and Universities. The most recent accreditation review of CMC was conducted by WASC in 1999. The next scheduled WASC visit is scheduled for the fall of 2009.

#### **Academic Programs:**

CMC is primarily a liberal arts institution with 28 separate majors in nine departments. Interdisciplinary majors in a number of additional subjects through the Claremont Colleges consortium are options for independent study and combined degree programs. Students may graduate with a single, dual, double or individualized major. They may also elect to complete majors at any of the other undergraduate institutions with the Claremont Colleges.

**IV. OUTSTANDING DEBT (\$000's):**

Issue:	Original Issue Amount	Amount Outstanding as of 06/30/08	Estimated Amount Outstanding After Proposed Financing
<b>Existing Debt:</b>			
CEFA, Series 1999	\$ 24,000	\$ 9,252	\$ 9,252
CEFA, Series 2003	9,975	9,090	9,090
CEFA, Series 2007	40,425	40,260	40,260
<b>Proposed:</b>			
<b>CEFA, Series 2008</b>			<b>85,000</b>
Total		\$ 58,602	\$ 143,602

\* Does not include unamortized premium

**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 \$85,000,000 for Claremont McKenna College 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.