

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

| | | | | | | | | | | | | | | | | | | | | | |
|---|--|---------------------------------|----------------------|------------------------------|--|---------------------|---------------|--------------|--------------|--|--|-----------|------------|--|--|-----------------|----------------|---------------|----------------------|------------|----------------------|
| <p>Applicant: Loyola Marymount University ("LMU") 1 LMU Drive Los Angeles, CA 90045-2659 Los Angeles County</p> <p>Facility Type: Private University</p> <p>Project Location: Los Angeles, CA</p> <p>Accreditations: Western Association of Schools and Colleges and American Bar Association</p> <p>Prior Borrower: Yes</p> | <p>Amount Requested: \$110,000,000</p> <p>Date Requested: February 25, 2010</p> <p>Resolution Number: 272</p> | | | | | | | | | | | | | | | | | | | | |
| <p>Use of Proceeds: Proceeds will be used to finance the renovation and upgrade of campus facilities as well as to refund the outstanding CEFA Series 1997 and 2008 bonds.</p> | | | | | | | | | | | | | | | | | | | | | |
| <p>Type of Issue: Negotiated public offering, up to approximate 5 year maturity (Series 2010B) & 30-year maturity (Series 2010A), tax exempt fixed rate (Series 2010A) and/or variable rate (Series 2010B)</p> <p>Security Loan Provisions: General Obligation Pledge</p> <p>Credit Enhancement: None</p> <p>Underlying Credit Rating: A2 (Moody's)</p> <p>Senior Manager: Morgan Stanley</p> <p>Co-Manager: Bank of America Merrill Lynch</p> <p>Bond Counsel: Orrick, Herrington & Sutcliffe LLP</p> | | | | | | | | | | | | | | | | | | | | | |
| <p>Environmental Benefits: The environmental benefits associated with LMU's renovation and upgrade projects include the installation of energy efficient light fixtures, low flow and low usage toilets, energy conserving boilers and air handlers and the utilization of recycled products and materials. The projects intend to meet minimum LEED standards.</p> | | | | | | | | | | | | | | | | | | | | | |
| <p>Financial Overview: LMU continues to post positive operating results supported by growth in tuition revenue over the review period. LMU's balance sheet remains sound with approximately \$662.1 million in total net assets.</p> | | | | | | | | | | | | | | | | | | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2"><u>Sources of funds:</u></td> <td colspan="2"><u>Uses of funds:</u></td> </tr> <tr> <td style="width: 30%;">Par Amount of Bonds</td> <td style="width: 20%; text-align: right;">\$110,000,000</td> <td style="width: 30%;">Project Fund</td> <td style="width: 20%; text-align: right;">\$28,220,000</td> </tr> <tr> <td></td> <td></td> <td>Refunding</td> <td style="text-align: right;">80,989,048</td> </tr> <tr> <td></td> <td></td> <td>Financing Costs</td> <td style="text-align: right;"><u>790,952</u></td> </tr> <tr> <td>Total Sources</td> <td style="text-align: right;"><u>\$110,000,000</u></td> <td>Total Uses</td> <td style="text-align: right;"><u>\$110,000,000</u></td> </tr> </table> | | <u>Sources of funds:</u> | | <u>Uses of funds:</u> | | Par Amount of Bonds | \$110,000,000 | Project Fund | \$28,220,000 | | | Refunding | 80,989,048 | | | Financing Costs | <u>790,952</u> | Total Sources | <u>\$110,000,000</u> | Total Uses | <u>\$110,000,000</u> |
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| Par Amount of Bonds | \$110,000,000 | Project Fund | \$28,220,000 | | | | | | | | | | | | | | | | | | |
| | | Refunding | 80,989,048 | | | | | | | | | | | | | | | | | | |
| | | Financing Costs | <u>790,952</u> | | | | | | | | | | | | | | | | | | |
| Total Sources | <u>\$110,000,000</u> | Total Uses | <u>\$110,000,000</u> | | | | | | | | | | | | | | | | | | |
| <p>Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.</p> | | | | | | | | | | | | | | | | | | | | | |
| <p>Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$110,000,000 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. Macias Gini & O'Connell, LLP, the Authority's financial analyst, has reviewed all relevant financial documentation submitted by Loyola Marymount University to the Authority and has advised of its concurrence with the Authority's staff recommendation.</p> | | | | | | | | | | | | | | | | | | | | | |

STAFF SUMMARY AND RECOMMENDATION

Loyola Marymount University (“LMU”)

February 25, 2010

Resolution No. 272

I. PURPOSE OF FINANCING: Loyola Marymount University (LMU) is facing a financial burden associated with significant interest rate increases and the recent ratings downgrade of a Letter of Credit provider. 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 interest rate structure and also to remove the credit enhancement on the existing bonds. In addition, LMU intends to use a portion of the bond proceeds for the renovation of an existing facility and other qualifying capital projects.

Projects \$28,220,000

Von der Ahe Library – LMU is planning to renovate and repurpose the Von der Ahe Library to create a Campus Center. The renovation will require interior demolition and a major renovation of the existing building. The renovated facility will centralize various campus services to improve the overall experience for students, their families, faculty and alumni. Noted campus services to utilize the Campus Center include Enrollment Management, Campus Bookstore, Business Center, Student Financial Services, Alumni Relations and Campus Safety.

Various Improvement Projects – Bond proceeds permitting, LMU plans to complete several improvement projects to existing campus facilities. Projects include fire life safety, various interior tenant improvements, ADA restroom and accessibility upgrades, energy and mechanical improvements and seismic upgrades.

Environmental Benefits:

The environmental benefits associated with the proposed renovation and improvement projects include:

- Removing outdated boilers and air handlers that are older than 20 years and replacing them with new energy efficient units.
- Installing low flow and low usage toilets, hands-free flushing toilets and sinks to conserve water.
- Installing new carpets, dry wall, metal studs and other material from recycled material.
- Installing energy efficient light fixtures and light bulbs to conserve energy.
- Upgrading and substantially replacing the HVAC system powered by a central plant that uses a photovoltaic high reflective roof system.

The proposed projects will be designed to meet minimum LEED standards.

Refunding **\$80,989,048**

LMU plans to use bond proceeds to refund all or a portion of outstanding balances of the CEFA Series 1997 and 2008 bonds.

The CEFA Series 1997 bonds were originally issued to advance refund the CEFA Series 1992 and 1992B bonds. The refunded bonds helped finance the demolition and rebuilding of a parking garage on the Loyola Law School Campus and the construction of a facility for the College of Business on the Westchester Campus. The refunding of the CEFA Series 1997 bonds will reduce LMU’s associated annual debt service payments and will generate approximately \$600,000 in annual debt service savings.

The CEFA Series 2008 bonds refinanced and converted the CEFA Series 2001B and 2004 bonds from auction rate securities to variable rate demand bonds. The CEFA Series 2001B bonds were issued to fund the construction of several campus facilities, computer and classroom technology equipment and the renovation of existing facilities. The CEFA Series 2004 bonds were issued in part to refund the CEFA Series 1992 and 1994 bonds and for the construction and renovation of various educational and student resident facilities. Due to the financial crisis and liquidity crunch in 2008, both the 2001B and 2004 bonds experienced failed auctions.

At the time of the issuance of the CEFA Series 2008 bonds, LMU chose to enhance the bonds with a Letter of Credit (LOC) by Allied Irish Bank. However, the LOC provider has since been downgraded by rating agencies. The downgrade negatively impacts LMU such that the bonds have become less desirable to potential investors. The refunding of the CEFA Series 2008 bonds will terminate the LOC.

Financing Costs **\$790,952**

| | |
|-------------------------|----------------|
| Cost of Issuance | \$200,000 |
| Underwriters’ Fee | <u>590,952</u> |

TOTAL USES OF FUNDS..... ***\$110,000,000***

II. FINANCIAL ANALYSIS:

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

| | Year Ended May 31, | | |
|--|--------------------|-------------------|-------------------|
| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| Revenues: | | | |
| Net tuition and fees | \$ 207,734 | \$ 199,609 | \$ 189,520 |
| Investment returns designated for operations | 8,570 | 16,439 | 15,535 |
| Contributions and pledges | 6,276 | 7,585 | 7,753 |
| Grants | 9,103 | 7,280 | 6,649 |
| Auxiliary enterprise revenue | 32,274 | 29,882 | 28,248 |
| Other revenue | 5,164 | 5,813 | 5,262 |
| Net assets released from restriction | 6,866 | 1,162 | 895 |
| Total operating revenues | <u>275,987</u> | <u>267,770</u> | <u>253,862</u> |
| Expenses: | | | |
| Instruction | 109,788 | 104,942 | 102,938 |
| Research | 3,514 | 2,947 | - |
| Academic support | 22,554 | 20,195 | 7,995 |
| Library | 11,082 | 10,030 | 9,309 |
| Student services | 44,941 | 44,201 | 36,966 |
| Institutional support | 49,679 | 46,643 | 52,205 |
| Auxiliary enterprises | 26,479 | 25,506 | 28,304 |
| Total operating expenses | <u>268,037</u> | <u>254,464</u> | <u>237,717</u> |
| | | | |
| Increase in operating net assets | 7,950 | 13,306 | 16,145 |
| Non-operating Revenues and Expenses: | | | |
| Contributions for non-operating purposes | 400 | 78 | 60 |
| Contributions for acquisition of capital assets | 2,119 | 8,634 | 8,600 |
| Investment returns after amounts designated for current operations | (65,849) | 4,041 | 55,704 |
| Early extinguishment of debt | (1,887) | (185) | - |
| Net gain on interest rate swap agreement | - | - | 596 |
| Net unrealized losses on interest rate swap | (3,072) | - | - |
| Other non-operating expenses | - | - | (36) |
| Net assets released from restriction | 629 | 6,007 | 13,076 |
| Redesignations | (24,380) | (646) | (25) |
| | | | |
| Increase (decrease) in non-operating revenues and expenses | (92,040) | 17,929 | 77,975 |
| | | | |
| Cumulative effect of change in accounting principles | <u>(63,502)</u> | <u>620</u> | <u>-</u> |
| | | | |
| Change in net assets | (147,592) | 31,855 | 94,120 |
| | | | |
| UNRESTRICTED NET ASSETS, BEGINNING OF YEAR | <u>582,937</u> | <u>551,082</u> | <u>456,962</u> |
| | | | |
| UNRESTRICTED NET ASSETS, END OF YEAR | <u>\$ 435,345</u> | <u>\$ 582,937</u> | <u>\$ 551,082</u> |

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

| | As of May 31, | | |
|---|-------------------|---------------------|-------------------|
| | <u>2009</u> | <u>2008</u> | <u>2007</u> |
| ASSETS: | | | |
| Cash and cash equivalents | \$ 14,469 | \$ 21,947 | \$ 29,746 |
| Accounts receivable, tuition and fees | 2,602 | 3,582 | 2,403 |
| Other accounts receivable | 8,940 | 7,701 | 7,045 |
| Pledges receivable, net | 22,702 | 30,695 | 25,677 |
| Notes receivable | 35,261 | 33,179 | 31,163 |
| Investments | 326,815 | 450,121 | 434,337 |
| Prepaid expenses, deferred charges and other assets | 5,948 | 8,427 | 8,571 |
| Property and equipment | 507,309 | 451,231 | 414,699 |
| Total assets | \$ 924,046 | \$ 1,006,883 | \$ 953,641 |
| LIABILITIES AND NET ASSETS: | | | |
| Accrued payroll expense | \$ 10,276 | \$ 9,515 | \$ 8,145 |
| Accounts payable and accrued expenses | 37,286 | 36,276 | 27,062 |
| Accrued interest expense | 24,356 | 22,101 | 19,572 |
| Deferred revenue and deposits | 11,579 | 13,010 | 10,685 |
| Debt outstanding | 161,822 | 162,974 | 168,867 |
| Loan funds returnable to donor | 1,152 | 1,152 | 1,152 |
| U.S. government grants refundable | 11,090 | 11,166 | 11,346 |
| Annuity liabilities and assets held for others | 4,340 | 4,662 | 4,796 |
| Total liabilities | 261,901 | 260,856 | 251,625 |
| Net assets: | | | |
| Unrestricted | 435,345 | 582,937 | 551,082 |
| Temporarily restricted | 81,864 | 23,772 | 23,553 |
| Permanently restricted | 144,936 | 139,318 | 127,381 |
| TOTAL NET ASSETS | 662,145 | 746,027 | 702,016 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 924,046 | \$ 1,006,883 | \$ 953,641 |

Financial Ratios

| | Proforma | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---|--------------------|-------------|-------------|-------------|
| | FYE 5/31/09 | | | |
| Debt service coverage (x) | 1.31 (a) | 1.76 | 4.18 | 4.84 |
| Debt to expendable net assets (x) | 0.36 | 0.31 | 0.27 | 0.29 |
| Expendable net assets to operations (x) | | 1.93 | 2.38 | 2.42 |
| Margin | | 3% | 5% | 6% |

(a) Recalculates FY 2009 results to include the impact of this proposed financing

Financial Discussion:

LMU continues to post positive operating results supported by growth in tuition revenue over the review period.

LMU continues to generate positive operating results over the review period. In the three-year review period, total unrestricted revenues have increased from \$253.9 million in FY 2007 to \$276.0 million in FY 2009, a 9% increase. Key factors accounting for this revenue growth include the consistent growth of net tuition. Net tuition accounts for 75% of LMU's total unrestricted revenues and has grown nearly 10% over the review period, from \$189.5 million in FY 2007 to \$207.7 million in FY 2009.

LMU's moderate operating gains in FY 2009 were offset by unrestricted non-operating losses on their interest rate swaps and the decline in market values of the endowment assets. Also contributing to the non-operating "losses" is the newly enacted endowment legislation, the Uniform Prudent Management of Institutional Funds Act. The Act requires LMU to classify the portion of donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. As a result of this legislation, Generally Accepted Accounting Principles required LMU to reclassify approximately \$63.5 million from unrestricted net assets to temporarily restricted net assets in FY 2009.

LMU's balance sheet remains sound with approximately \$662.1 million in total net assets.

Despite investment losses, LMU has generally been able to maintain its total net asset levels from FY 2007 to FY 2009. In FY 2007, total net assets equaled \$702.0 million and increased 6% to \$746.0 million in FY 2008. Total net assets in FY 2009 dipped to \$662.1 million, due to the investment losses indicated above.

Debt to expendable net assets has remained historically low. With unrestricted and temporarily restricted net assets exceeding \$517.2 million in FY 2009, the proforma debt to expendable net assets is a low 0.31x. Debt service coverage levels have been healthy over the review period. In FY 2009, the debt service coverage ratio was 1.76x and with this proposed financing, the proforma debt service coverage ratio is still an acceptable 1.31x.

III. BACKGROUND:

General:

Loyola Marymount University is a nonprofit, coeducational, privately endowed university emphasizing undergraduate liberal arts as well as a 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 50 members serving three-year terms governs the University. There are presently seven (7) vacancies on the Board. 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, two Schools and the Graduate and Law Schools. The colleges and schools of Liberal Arts, Communication and Fine Arts, Business Administration, and Science and Engineering and the School of Education and the School of Film and Television 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 School of Education. The University offers 99 bachelor and masters degree programs: 2 doctoral programs – in an educational leadership and social justice and the other a jus doctorate; and more than a dozen in 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 :

| <u>Issue:</u> | <u>Original Issue Amount</u> | <u>Amount Outstanding as of 05/31/09</u> | <u>Estimated Amount Outstanding After Proposed Financing</u> |
|--------------------------|----------------------------------|--|--|
| Existing Debt: | | | |
| CEFA, Series 1997 | \$ 19,295,000 | \$ 11,190,000 | \$ - |
| CEFA, Series 1999 * | 62,142,839 | 2,369,055 | - |
| CEFA, Series 2001A | 75,449,126 | 71,809,126 | 71,809,126 |
| CEFA, Series 2008 | 71,895,000 | 71,895,000 | - |
| Proposed: | | | |
| CEFA, Series 2010 | | | 110,000,000 |
| Total | | <u>\$ 157,263,181</u> | <u>\$ 181,809,126</u> |

*CEFA Series 1999 matured in October 2009 subsequent to the FY 2009 audited financial statements.

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 \$110,000,000 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.