CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM
EXECUTIVE SUMMARY

Applicant:	Stanford University ("Stanford" or "Leland Stanford Junior University") Stanford, California Santa Clara County	**Amount Requested:** **Date Requested:** **Requested Loan Term:** **Resolution Number:**	$918,315,000 March 17, 2010 up to 50 years 273

Facility Type: Private University
Accreditation: Western Association of Schools and Colleges

Use of Bond Proceeds: Bond proceeds will be used to support various planned capital expenditures and improvements at Stanford as part of its on-going capital plan. In addition, Stanford seeks to refund all or a portion of its CEFA Series P, Q, R, S, and T-4 bonds.

Environmental Benefits: Stanford is committed to a decade long commitment to energy conservation and efficiency. Phase I of a comprehensive energy retrofit program is underway with the goal of energy consumption reductions. The buildings selected for retrofit represent $15.9 million of energy expenses per year, or nearly 36% of the total campus energy expense. A second group of fourteen buildings, which consume an additional 24% of Stanford's total energy usage have been identified for the energy retrofit studies and implementation program. In addition to the two large-scale retrofits mentioned above, two medium sized energy retrofits have been implemented. The environmental benefits associated with Stanford's construction, renovation and upgrade projects include the installation of energy efficient appliances, water-efficient fixtures and the utilization of recycled products and materials.

Type of Issue:	Negotiated public offering, fixed rates
Credit Enhancement:	None
Expected Credit Rating:	Aaa/AAA/AAA (Moody's/S & P/Fitch) based on University credit
Underwriter:	Morgan Stanley
Bond Counsel:	Orrick, Herrington & Sutcliffe

Financial Overview: Stanford University operating results appears solid. The balance sheet appears solid with substantial liquidity including impressive fundraising results.

Estimated Sources of Funds ($000):		**Estimated Uses of Funds ($000):***	
Bond Proceeds	$918,315	Refundings of CEFA Bonds	$611,640
		Refunding of CEFA TECP	150,000
		Capital Projects	150,000
		Financing Costs	6,675
Total Sources	$918,315	Total Uses	$918,315

*Uses may include financing costs to the extent permitted by federal tax law and requested by Stanford.

Legal Review: No information was disclosed to question the financial viability or legal integrity of this applicant.

Staff Recommendation: Staff recommends the Authority approve Resolution Number 273 in an amount not to exceed $918,315,000 for Stanford 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 and satisfactory conclusion of the TEFRA hearing and approval.

STAFF SUMMARY AND RECOMMENDATION
BOND FINANCING PROGRAM
March 17, 2010
Resolution Number: 273

STANFORD UNIVERSITY ("Stanford")

I. **PURPOSE OF FINANCING:** Stanford continues to progress with its significant multi-year Capital Program. This financing will refund, subject to market conditions, up to $762 million of existing CEFA debt outstanding (including approximately $150 million of existing CEFA commercial paper) and include approximately $150 million new money. The new money will be used for new construction projects.

Uses of Funds: (Each use indicated below may include financing costs to the extent permitted by federal tax law and requested by Stanford)

Refunding of CEFA Bonds.. $611,640,000
Stanford plans to use bond proceeds to refund all or a portion of outstanding balances of the CEFA Series P, Q, R, S and T-4 bonds which financed such projects as:

- Chemistry/Biology Building
- Biomedical Engineering and Sciences facilities
- Stanford West Apartments
- New Mechanical Engineering Laboratory
- Sand Hills Road Projects
- Seismic retrofitting
- Parking and campus transportation projects
- Construction/Renovation of various graduate and undergraduate residential facilities.

Refunding of CEFA commercial paper... 150,000,000
Stanford plans to use bond proceeds to refund outstanding CEFA commercial paper which financed and/or refinanced certain capital projects.

Construction/Renovation 150,000,000
Student Housing and Dining Facilities -_ Stanford University houses approximately 4,650 graduate students on campus. In an effort to address the shortage and affordability of student housing several housing projects underway are near completion. The Munger Residence Hall, a graduate student housing complex, currently houses graduate students and families in all five of its buildings, and is nearly complete. Crothers Hall and Crothers Memorial Hall previously housed 244 graduate students and is being renovated to house 376 undergraduate students. In addition, Stanford's Residential and Dining Enterprises has an ongoing capital improvement program to maintain, upgrade and renovate facilities.

Academic Facilities and Infrastructure - Stanford's Capital Plan addresses the need to replace and upgrade many of the university's aging facilities for science, medicine and engineering. New research facilities include the Nano Technology Center which will make available to over 70 researchers on campus some of the most advanced equipment available, and the Learning Knowledge Center which will be an active hub for the School of Medicine, providing supportive environments for learning and knowledge development. The School of Medicine long-range plan calls for the development of new research facilities that will focus on the five Institutes of Medicine to be housed in three new buildings. The Stanford Institutes of Medicine (SIM1) building, the first of three institute-based buildings planned by the school will house Stem Cell Biology and Regenerative Medicine Institute (SCBRM) and the Cancer Center. The Huang Engineering Center, at the heart of the School of Engineering Quad 2 (SEQ2), will be the headquarters for the School of Engineering. Additionally, the plan includes a new Campus for the Graduate School of Business (the Knight Management Center), and Law School Clinics and Faculty Office Building.. Renovations of existing facilities include: seismic upgrades, building energy retrofitting, system upgrades of existing classrooms, libraries, laboratories and student activity facilities. A variety of furniture, fixtures and equipment are included in the plan, but not limited to computers, vehicles and general equipment.

<u>Environmental Benefits</u>: Stanford is committed to advancing sustainability in design, construction, and operation of campus facilities. The reduction of overall energy consumption and the use of clear energy sources are integral in creating a sustainable campus. Stanford continues a decade long commitment to energy conservation and efficiency. The environmental benefits include, but are not limited to:

- Focusing in extending the life-cycle of existing facilities to conserve resources, retain cultural resources, reduce waste and minimize the environmental impacts of new construction.
- Implementing new water saving technologies include plumbing retrofits, replacement of once-through cooling systems in laboratories with re-circulating systems and water reclamation for irrigation and flushing toilets,
- Recycling and/or salvage demolition of construction waste whenever possible to divert waste from landfills, and
- Purchasing and use of Energy Star appliances and water-efficient fixtures

Financing Costs		**6,675,000**
Cost of Issuance..	$2,000,000	
Underwriter's Expense	<u>4,675,000</u>	
Total Uses of Funds		**<u>$918,315,000</u>**

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II. FINANCIAL STATEMENTS AND ANALYSIS:

STANFORD UNIVERSITY

Consolidated Statement of Activities
Unrestricted (000's)

	Fiscal Year Ended August 31,		
	2009	2008	2007
Revenues:			
Student Income	$ 401,495	$ 404,821	$ 394,062
Sponsored research support	1,031,345	1,075,929	1,058,158
Expendable gifts in support of operations	155,037	189,378	198,454
Investment income	1,070,805	1,006,919	709,549
Health Care Services	2,423,929	2,192,968	1,996,482
Other income	422,741	429,188	397,975
Net assets released from restrictions	97,428	104,356	122,433
Total revenues	5,602,780	5,403,559	4,877,113
Expenses:			
Salaries and benefits	3,090,283	2,884,928	2,602,987
Depreciation	321,610	315,415	265,564
Other operating expenses	1,681,575	1,756,741	1,599,029
Total expenses	5,093,468	4,957,084	4,467,580
Excess of revenues over expenses	**509,312**	**446,475**	**409,533**
Other changes in unrestricted net assets			
(Decrease) increase in reinvested gains	(2,459,429)	(201,623)	2,868,521
Donor advised funds, net	1,010	165,583	32,527
Current year gifts not included inoperations	10,711	8,976	5,838
Contribution revenue from pmerger with CASBS	-	29,198	-
Capital and other gifts released from restriction	178,034	66,742	142,828
Capital gifts related to Hospitals	-	-	2,547
Decrease in minimum pension liability	-	-	3,593
Pension related changes other than net period benefit expense	(278,328)	(13,572)	-
Transfer to permanently restricted net assets	(52,236)	(41,348)	(40,676)
Transfer to temporarily restricted net assets	(6,552)	(43,657)	(14,598)
Swap intest and unrealized losses	(65,988)	(52,243)	(3,126)
Loss on extinguishment of debt	-	(17,855)	-
Income (loss) from discontinued operations	-	890	(23,869)
Cumulative effect of change in accounting principle	-	-	(82,232)
Other	6,235	138	(9,879)
Net change in unrestricted net assets before effect of change in accounting principle	(2,157,231)	347,704	3,291,007
Effect of change in accounting principle	(6,445,253)	-	-
Net change in unrestricted net assets after effect of change in accounting principle	(8,602,484)	347,704	3,291,007

STANFORD UNIVERSITY

Consolidated Statement of Financial Position (000's)

	As of August 31		
	2009	2008	2007
ASSETS:			
Cash and cash equivalent	1,781,274	$ 859,030	$ 646,620
Accounts receivable, net	555,970	599,779	656,896
Prepaid expenses and other assets	131,467	146,974	237,661
Pledges receivable, net	894,445	883,347	757,631
Student loans receivable, net	72,375	70,950	65,626
Faculty and staff mortgages and other loans receivable, net	421,052	376,491	334,268
Investment at fair value	17,757,473	23,469,799	23,118,655
Plant facilites, net	4,529,636	3,967,183	3,472,369
TOTAL ASSETS	$ 26,143,692	$ 30,373,553	$ 29,289,726
LIABILITIES AND NET ASSETS:			
Liabilities:			
Accounts payable and accrued expenses	1,090,634	1,107,114	$ 916,772
Accrued pension and post retirement benefit cost	561,052	287,987	277,273
Pending trades	66,160	170,919	141,838
Liabilities under security agreements	248,048	548,951	648,723
Deferred rental income	378,496	388,018	392,999
Income beneficiary share of split interest agreeements	316,404	423,197	413,403
Notes and bonds payable	3,515,590	2,539,536	2,508,507
U.S. government refundable loan funds	53,203	52,848	52,685
TOTAL LIABILITIES	6,229,587	5,518,570	5,352,200
NET ASSETS:			
Unrestricted	9,659,490	18,261,974	17,914,270
Temporarily Restricted	5,307,165	1,558,349	1,348,491
Permanently Restricted	4,947,450	5,034,660	4,674,765
TOTAL NET ASSETS	$ 19,914,105	$ 24,854,983	$ 23,937,526
TOTAL LIABILITIES AND NET ASSETS	$ 26,143,692	$ 30,373,553	$ 29,289,726

Financial Ratios:

	Proforma YE Aug 31, 2009	**2009**	**2008**	**2007**
Debt service coverage (x)	2.44	2.49	3.10	19.50
Debt to expendable net assets (x)	0.26	0.25	0.13	0.13
Expendable net assets to operations (x)		2.94	4.00	4.31
Margin (%)		9.1	8.3	8.4

<u>Financial Discussion:</u> ***Unless otherwise stated, financial information is for Stanford University only and excludes affiliated entities.***

Stanford University's operating results appears solid.

Stanford University reports operating results were solid despite the economic climate. Stanford's consolidated statement of activities ended fiscal year 2009 with a surplus from operations of $509 million compared to $446 million in fiscal year 2008. According to Stanford, the operating surplus was largely due to the following three factors:

1) Endowment payout was fixed prior to the beginning of the fiscal year and the financial downturn;
2) Substantial operating funds were allocated for facilities projects and were capitalized rather than expended; and
3) As the financial downturn unfolded, expenses were reduced in anticipation of lower revenues in fiscal year 2010.

Endowment payout on existing funds is budgeted to decrease 10% in fiscal year 2010 and expected to decrease a further 15% in fiscal year 2011.

Stanford has significantly scaled back an ambitious capital plan by delaying or suspending approximately $1 billion in capital projects originally expected in the next few years. Stanford will continue with a number of projects that have been heavily gift funded or were significantly underway.

Stanford has taken a significant number of steps to adjust budgeting and spending patterns to accommodate reductions in endowment payout in the current and future years, including salary freezes, layoffs and reductions in general fund allocations.

The balance sheet appears solid with substantial liquidity including impressive fundraising results.

In fiscal year 2009, Stanford's consolidated balance sheet reflects $1.7 billion in cash and cash equivalents, an increase of 207%. This increase is due to Stanford's desire to maintain adequate liquidity. Stanford issued $1 billion of taxable debt of which $800 million, net of issuance cost, was set aside in a fund invested in money market securities. This enabled Stanford the additional liquidity it desired for Stanford's general purposes. The balance sheet reflects a decrease in investments, endowment and nets assets for fiscal year 2009. This decrease appears to be primarily from the turmoil in the financial markets and global economy. Temporarily restricted net assets increased due to the adoption of a new accounting principle (FSP FAS 117-1)[1] which resulted in reclassifying $6.3 billion of expendable appreciation on donor-restricted endowment funds from unrestricted to temporarily restricted nets assets. Investment losses of $2.5 billion and new gifts and pledges of $209 million also impacted temporarily restricted net assets. Debt service coverage is

[1] FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act and requires additional disclosure about an organization's endowment funds.

based on operating results and remains solid with a debt service coverage ratio of 2.49x. With the new debt, Stanford proforma debt service coverage remains a solid 2.44x.

The balance sheet is bolstered further by Stanford's impressive fundraising results. *The Stanford Challenge,* which was launched in October 2006 with a goal of raising $4.3 billion over five years, surpassed its milestone reaching a total at $4.48 billion for fiscal year 2009.

III. BACKGROUND:

General:

Founded in 1885, The Leland Stanford Junior University is one of a select group of American universities that has achieved eminence in both undergraduate and graduate education and in a broad range of academic disciplines. It is internationally recognized for the quality of its teaching and research, its distinguished faculty and its outstanding student body. Situated on 8,200 acres near Palo Alto in Santa Clara County, Stanford is 35 miles southeast of San Francisco and 20 miles northwest of San Jose. The program of instruction at Stanford is organized around seven schools: Business, Earth Sciences, Education, Engineering, Humanities and Sciences, Law and Medicine.

Administration:

Stanford is governed by a Board of Trustees consisting of a minimum of 25 and a maximum of 35 members, including the President of Stanford. The Board is responsible for determining policies for operation and control of Stanford including, among other things, the adoption of Stanford budget, establishment of schools and departments, investment and accounting policies, debt policy and land use and development. The Board conducts its business through standing committees, including the Committees on Finance, Development, Audit and Compliance, Academic Policy, Land and Buildings, Alumni and External Affairs and the Medical Center, and trusteeship. The Board nominates and selects its successors, eight of whom are required to be alumni Trustees.

The Board of Trustees delegates the responsibility to the President to prescribe the duties of professors and teachers, to set the course of study and the mode and manner of teaching and to exercise all other necessary powers relating to the educational, research, financial and business affairs of Stanford, including the operation of the physical plant. The President appoints, subject to confirmation by the Board, the Provost and the other Officers of Stanford. The Stanford Management Company is the operating division of Stanford responsible for the management of Stanford's investment assets.

Accreditation and Affiliations:

Stanford is fully 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 last WASC accreditation was in year 2000.

Stanford also has professional accreditation from the Accreditation Board for Engineering and Technology using criteria and standards developed and accepted by United States engineering communities. The following undergraduate curricula are accredited at Stanford: Chemical Engineering, Civil Engineering, Electrical Engineering, Environmental Engineering and Mechanical Engineering.

Academic Programs:

Stanford is a major research and teaching university offering a wide range of undergraduate, graduate and professional degree programs. The Schools of Earth Sciences, Engineering and Humanities and Sciences (which includes the core humanities, fine arts, languages and literature, the social sciences, mathematics, and the natural sciences) offer both undergraduate and graduate degree programs. The Schools of Business, Education, Law and Medicine offer graduate and professional degree programs. Undergraduate students are admitted to Stanford and have access to any undergraduate major and to classes and research opportunities in all seven schools. Degree programs are offered by departments and through interdepartmental programs involving faculty from multiple departments in one or more Schools. Stanford, its Schools and its academic programs hold all appropriate accreditations.

IV. CONSOLIDATED OUTSTANDING DEBT ($000's):

Issue:	Original Issue Amount	Amount Outstanding As of 8/31/09*	Estimated Amount Outstanding after Proposed Financing
Existing:			
CEFA Revenue Bonds			
Series L, O, P, Q, R, S, T	$1,258,533	$980,588	$362,273
CEFA Commercial Paper	300,000	152,140	2,140
Stanford University Bonds – Taxable		150,000	150,000
Medium Term Notes – Taxable		100,000	100,000
Stanford Univ. Bonds Series 2009 – Taxable		1,000,000	1,000,000
Commercial Paper – Taxable	350,000	97,476	97,476
Other		1,601	1,601
Subtotal University Notes and Bonds		2,481,805	1,713,490
CHFFA Hospital Bonds	1,104,945	978,400	978,400
Promissory Note		857	857
Capital Lease Obligation		15748	15,748
Subtotal Hospital Notes and Bonds		995,005	995,005
Proposed:			
CEFA Series U 2010			**$918,315**
Total		$3,476,810	$3,626,810

* Includes current portion.

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 Resolution Number 273 in an amount not to exceed $918,315,000 for Stanford 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 and satisfactory conclusion of the TEFRA hearing and approval.