CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM

EXECUTIVE SUMMARY

Applicant: Claremont University Consortium (the "Consortium")
150 E. 8th St., Claremont, CA
Los Angeles County

Amount Requested: $10,000,000
Date Requested: December 2, 2010
Resolution Number: 281

Facility Type: Nonprofit Affiliate of Private Colleges
Project Sites: 101 S. Mills Ave., Claremont, CA
800 Dartmouth Ave., Claremont, CA

Use of Proceeds: Bond proceeds will be used for the renovation of existing facilities and to refund all or a portion of a bank loan and the CEFA Series 1999B bonds.

Type of Issue: Negotiated public offering, fixed rates, $5,000 minimum denominations
Credit Enhancement: None
Underlying Credit Rating: Aa3 (Moody's)
Senior Manager: Prager, Sealy & Co., LLC
Bond Counsel: Squire, Sanders & Dempsey LLP

Environmental Benefits: By renovating an existing facility, the Consortium renovation projects will have an overall lower environmental impact as a result of reducing the amount of waste generated and the amount of new materials required as compared to the construction of a new facility. The Consortium intends to pursue a LEED Silver Certification for the project.

Financial Overview: The Consortium continues to post positive operating results despite fluctuating revenues. The Consortium's financial strength appears sound with approximately $51 million in total net assets.

Sources of funds:		**Uses of funds:**	
Par Amount	$10,000,000	Project Fund	$3,375,000
Equity Contribution	137,528	Refunding	5,803,875
Original Issue Discount*	(626,420)	Financing Costs	332,233
Total Sources	$9,511,108	Total Uses	$9,511,108

*Discount from par value at the time the bonds are issued

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

Staff Recommendation: Staff recommends the Authority approve Resolution No. 281 in an amount not to exceed $10,000,000 for the Claremont University Consortium subject to a bond rating of at least investment grade by a nationally recognized rating agency and meeting the standard bond issuance guidelines. Macias Gini & O'Connell, LLP, the Authority's financial analyst, and Public Financial Management, the Authority's financial advisor, concurs with the Authority's staff recommendations.

STAFF SUMMARY AND RECOMMENDATION

Claremont University Consortium (the "Consortium")
December 2, 2010
Resolution Number: 281

I. PURPOSE OF FINANCING: The Consortium is seeking to refund a portion of their debt to position themselves with more affordable and stable rate structures as well as to renovate existing facilities and expand an existing parking lot.

Project Fund...$3,375,000

The Consortium is planning an adaptive reuse of an existing facility. The Administrative Campus Project involves the renovation of a facility originally constructed for use by the Consortium's Central Facilities Services, which houses the maintenance operation and services provided by the Consortium to the Claremont Colleges and affiliated institutions. The project is intended to contract the space used by the Central Facilities Services and add office space to accommodate the consolidation of the Consortium's administration offices.

The interior of the facility will be demolished and replaced with a conference center and dining area, open office area, and minor upgrades to the shops and warehouses. Exterior improvements will include an expansion of the existing parking lot, upgrades to the landscape and exterior of the building including covered outdoor patios.

Proceeds may also be used to reconfigure and renovate the Pendleton Building. Additionally, the parking lot used by this building and the Honnold/Mudd Library may be expanded.

Environmental Benefits:
The Consortium will apply for LEED Certification and is expecting LEED Silver Certification. Environmental benefit features for this project include, but are not limited to the installation of low-flow water devices, native and drought tolerant plants in exterior landscape, a bioswale in parking lot to retain storm water, large windows and skylights to allow more light, and a more efficient heating and cooling system. The Consortium also anticipates the recycling of 85% or more of construction waste, use of renewable materials and purchase of material within 500 miles of the project

Refunding...5,803,875

The Consortium plans to refund all or a portion of the CEFA Series 1999B bonds. The Series 1999B bonds were originally issued to advance refund a portion of the CEFA Series 1986 and 1987 bonds and to fund various capital projects. As of June 30, 2010, the outstanding balance of the Series 1999B bonds was approximately $5,775,000. The refunding of the CEFA Series 1999B bonds will have a net present value savings of approximately $279,000 or 4.83%

In 2009, the Consortium obtained a loan from Stellar Bank to purchase property used for an administration building which services the Claremont Colleges. The original loan amount was $377,000 with a fixed interest rate of 6.4% and a final maturity date of 2019.

Financing costs 332,233

Underwriter Fee and Expenses..$178,900
Costs of Issuance.. 153,333

TOTAL USES OF FUNDS **$9,511,108**

II. PROPOSED COVENANTS, SECURITY AND DISCLOSURES:

Executive summary and recommendations include minimum requirements. Additional or more stringent covenants or disclosures may be added following consultation with Authority staff but without further notification to the Authority's Board. These covenants cannot be diluted or removed without subsequent review. If there have been modifications to the covenant proposal following the preparation of this executive summary, staff will report it at the meeting.

- ✓ **Unconditional Promise to Pay.** *Borrower agrees to pay Trustee all amounts required for principal and interest and other payments and expenses designated in the Loan Agreement. All Revenues[1] and any other amounts held in a designated fund or account under the Bond Indenture are pledged to secure the full payment of the bonds.*

- ✓ **Disposition of Cash and Property Limitations.** *Borrower agrees not to sell, lease or dispose of substantially all assets unless authorized by the Loan Agreement.*

- ✓ **Comply with SEC Rule 15c2-12.** *The rule prohibits underwriters from underwriting municipal bond deals unless the issuer or borrower contractually agrees to disclose designated financial and operating information to the marketplace during the life of the bonds and to report designated "material events" such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc.*

Staff has reviewed the entirety of this financing package and finds it to be acceptable.

Not applicable for this transaction as separate and affirmative covenants:

- **Pledge of Gross Revenues.** *Borrower pledges to deposit all revenues, income, receipts and money received into a Gross Revenues Fund over which the Trustee has a control deposit account agreement.*
- **Negative Pledge Against Prior Liens.** *Borrower agrees not to create or assume any Lien upon Borrower's Property other than the Permitted Encumbrances.*
- **Limited Permitted Encumbrances.** *Borrower is subject to a restrictive set of allowable encumbrances it may incur pursuant to the Loan Agreement.*
- **Debt Service Reserve.** *Account established under the Indenture to make principal and interest payments if the Borrower fails to deposit timely payments.*
- **Debt Service Coverage Requirement.** *A ratio measuring ability to make interest and principal payments as they become due by assessing the amount of revenue available to meet debt service payments.*
- **Additional Debt Limitation.** *Borrower agrees not to incur additional Indebtedness unless authorized by the Loan Agreement.*
- **Security Interest in Designated Property/Deed of Trust.**
- **Cash or Liquidity Requirements.** *Borrower promises to periodically measure the balance of their liquid assets and maintain them at a prescribed level.*
- **Debt to Capitalization Requirement.** *A ratio limiting how much debt can be incurred based on the liquid assets and debt then in place.*

[1]Capitalized terms are defined in the Indenture.

III. FINANCIAL ANALYSIS:

Claremont University Consortium

Statement of Financial Position

	As of June 30,		
	2010	2009	2008
ASSETS:			
Cash	$ 146,763	$ 186,210	$ 145,758
Accounts receivable	2,524,158	2,384,070	2,210,928
Student loans receivable	615,552	-	-
Prepaid expenses, deposits and other	1,209,244	1,243,076	1,338,042
Inventories	387,411	417,216	439,567
Beneficial interest in trusts	1,370,032	1,202,798	1,582,534
Assets whose use is limited	3,092,985	3,928,621	4,617,057
Investments	36,777,088	35,040,863	41,151,269
Plant facilities, net	30,655,127	28,545,742	27,602,312
Total assets	$ 76,778,360	$ 72,948,596	$ 79,087,467
LIABILITIES AND NET ASSETS:			
Accounts payable, accrued liabilities and other	$ 4,115,222	$ 6,754,710	$ 4,247,568
Defined benefit plan payable	4,027,054	3,004,989	1,118,294
Financing for student loans	584,821	-	-
Bonds and notes payable	15,142,966	15,231,442	15,670,861
Funds held in trust for others	1,807,070	836,749	960,235
Asset retirement obligation	203,472	193,061	195,989
Total liabilities	25,880,605	26,020,951	22,192,947
Net assets:			
Unrestricted	26,234,228	24,666,069	43,580,601
Temporarily restricted	12,612,091	10,379,660	1,173,018
Permanently restricted	12,051,436	11,881,916	12,140,901
TOTAL NET ASSETS	50,897,755	46,927,645	56,894,520
TOTAL LIABILITIES AND NET ASSETS	$ 76,778,360	$ 72,948,596	$ 79,087,467

Financial Ratios

	Proforma FYE 6/30/10 (a)	2010	2009	2008
Debt service coverage (x)	3.82	4.00	1.83	4.00
Debt to expendable net assets (x)	0.49	0.39	0.43	0.35
Expendable net assets to operations (x)		1.17	0.92	1.29
Margin		7%	0%	7%

(a) Recalculates FY 2010 results to include the impact of this proposed financing

Claremont University Consortium

Statement of Activities

Unrestricted

	Year Ended June 30,		
	2010	2009	2008
Revenues:			
Sales and services	$ 34,017,080	$ 36,115,690	$ 35,073,722
Gifts	98,138	122,906	167,177
Interest and dividends on separate investments	226,477	487,629	700,509
Endowment income appropriated for operations	935,380	940,655	934,731
Other revenue	284,649	269,723	277,653
Release and reclassifications of restricted net assets	77,550	171,615	134,204
Total revenues	35,639,274	38,108,218	37,287,996
Expenses:			
Academic support services	10,965,531	12,919,645	12,617,292
Student services	3,705,526	3,480,208	3,399,900
Institutional support services	13,999,471	15,923,784	14,414,721
Administration and general	4,513,574	5,647,533	4,341,228
Total expenses	33,184,102	37,971,170	34,773,141
Revenues over expenses	2,455,172	137,048	2,514,855
Other changes:			
Investment return on pooled assets	1,016,709	(7,498,377)	85,956
Endowment income appropriated for operations	(935,380)	(940,655)	(934,731)
Net assets released for capital projects	-	-	50,000
Realized and unrealized (loss) gain on separate investments	362,456	(223,505)	259,144
UPMIFA reclassification	-	(8,238,113)	-
Redesigned net assets	(362,035)	-	
Net gain (loss) on disposal of fixed assets	-	395,078	(1,193,584)
Comprehensive pension expense	(968,763)	(2,207,122)	(838,266)
Transfers to other Claremont Colleges	-	(338,886)	-
Total other changes in net assets	(887,013)	(19,051,580)	(2,571,481)
Change in net assets	1,568,159	(18,914,532)	(56,626)
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	24,666,069	43,580,601	43,637,227
UNRESTRICTED NET ASSETS, END OF YEAR	$ 26,234,228	$ 24,666,069	$ 43,580,601

Financial Discussion:

The Consortium continues to post positive operating results over the review period despite fluctuating revenues.

Over the review period, the Consortium's total revenues have fluctuated from $37.3 million in FY 2008 to $38.1 million in FY 2009, down to $35.6 million in FY 2010. This fluctuation can be partially attributed to the decrease of revenue from sales and services from $35.0 million in FY 2008 to $34.0 million in FY 2010. The Consortium manages a number of centralized programs and services for the benefit of the Claremont Colleges, the costs of which are shared by the members of the group. In response to the Claremont Colleges' dealing with the economic downturn and the loss of endowment market value, the Consortium made cuts to its expenses and decresed its charges to the Claremont Colleges in FY 2010.

Operating expenses also fluctuated over the review period. Expenses totaled $38.0 million in FY 2009, up 2% from FY 2008 due to the implementation of an early retirement program and the reduction of staff. In FY 2010, these programs were fully implemented and a significant decrease in expenses was realized. This downshift in expenses has allowed the Consortium to post operating results of approximately $2.5 million in FY 2010.

The Consortium's financial strength appears to be sound with approximately $51 million in total net assets.

The Consortium's balance sheet appears to be sound. Total net assets decreased 18% from FY 2008 to FY 2009 due to losses in endowment and increased pension expenseswith FY 2010 experiencing a marked improvement from the previous fiscal year. Total net assets increased from $47 million in FY 2009 to $51 million in FY 2010, which can be attributable to the positive operating results and a gain in endowments.

In FY 2009, the Consortium implemented a new accounting principle (FSP FAS 117-1)[2] , which resulted in reclassifying $8.2 million of expendable appreciation on donor-restricted endowment funds from unrestricted to temporarily restricted net assets.

The Consortium has effectively managed its long-term debt as reflected in their three-year average debt service coverage ratio of 3.28x. In FY 2010, the Consortium had approximately $15 million in long-term debt as compared to $51 million in total net assets. With this proposed financing, the Consortium's proforma debt service coverage ratio is an acceptable 3.82x, indicating the Consortium should be able to continue making its long-term debt obligations.

[2] 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.

IV. BACKGROUND:

General:

Claremont University Consortium ("the Consortium") is the central coordinating institution of The Claremont Colleges, a group of five undergraduate colleges and two graduate institutions with a combined enrollment of over 6,000 students. The members include, Pomona College, Claremont Graduate University, Scripps College, Claremont McKenna College, Harvey Mudd College, Pitzer College and the Keck Graduate Institute of Applied Life Sciences (collectively, "The Claremont Colleges"). Each of The Claremont Colleges and the Consortium are separate corporate entities. As the central coordinating institution, the Consortium is responsible for advancing The Claremont Colleges, founding new institutions, promoting cooperation among member institutions, acquiring, holding and managing land for future institutions, and providing central support programs and services as well as central facilities operated on behalf of The Claremont Colleges.

Administration:

The Consortium is currently governed by a 22-person self-perpetuating Board of Overseers, each of whom is a voting member. The Chair of the Board of Trustees and the President of each of The Claremont Colleges, a total of 14 persons, are automatic members of the Board of Overseers by virtue of their leadership positions within The Claremont Colleges. There are between seven and 11 at-large members of the Board of Overseers, each of whom serves for a three-year term and is elected by the Board of Overseers. In addition, the Chief Executive Officer of the Consortium is a member of the Board of Overseers.

Accreditations:

Although the Consortium is not accredited by any association of schools and colleges, each of the Claremont Colleges is accredited by the Western Association of Schools and Colleges, of which each is a member.

V. OUTSTANDING DEBT:

Issue:	Original Issue Amount	Amount Outstanding as of 06/30/10	Estimated Amount Outstanding After Proposed Financing
Existing Debt:			
CEFA, Series 1999B	$8,295,000	$5,775,000	$0
California Infrastructure and Economic Development Bank, 2003	10,220,000	9,205,000	9,205,000
Stellar Bank Loan	377,000	373,597	$0
Proposed:			
CEFA, Series 2010			**10,000,000**
Total		$ 15,353,597	$ 19,205,000

VI. 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

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution No. 281 in an amount not to exceed $10,000,000 for the Claremont University Consortium subject to a bond rating of at least investment grade by a nationally recognized rating agency and meeting the standard bond issuance guidelines. Macias Gini & O'Connell, LLP, the Authority's financial analyst, and Public Financial Management, the Authority's financial advisor, concurs with the Authority's staff recommendations.