CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM

EXECUTIVE SUMMARY

Applicant:	Harvey Mudd College ("HMC") Claremont, CA Los Angeles County	**Amount Requested:**	$25,000,000
		Date Requested:	April 28, 2011
		Resolution Number:	283
Facility Type:	Private University		
Project Site:	Claremont, CA		
Accreditation:	Western Association of Schools and Colleges		

Use of Proceeds: Bond proceeds will be used for the acquisition, construction, expansion, rehabilitation, remodeling, renovation and equipping of various projects, including a new Teaching and Learning Building, a new residence hall, renovation of certain existing facilities (Kingston Hall and Platt Campus Center), parking improvements, and the acquisition of land.

Type of Issue:	Negotiated public offering, fixed rate, $5,000 minimum denominations
Credit Enhancement:	None
Expected Credit Rating:	A1 (Moody's)
Underwriter:	Prager, Sealy & Co., LLC
Bond Counsel:	Squire, Sanders & Dempsey (US) LLP

Environmental Benefits: HMC's policy requires all new buildings on campus to be certified LEED Silver or equivalent and the new Residence Hall will be designed to meet that requirement. The construction documents for the Teaching and Learning Building were prepared with the goal of obtaining LEED Platinum status. Significant building renovation projects will also contain environmental benefits including identifying components of improved energy efficiency and extending the useful life of the facilities.

Financial Overview: HMC has exhibited sound operating results with significant improvements in the areas of private gifts and investments. HMC's financial strength appears to be sound with approximately $307 million in net assets and good debt service coverage levels.

Sources of funds:			Uses of Funds:		
Par amount of bonds	$	25,000,000	Project fund	$	24,611,643
Net Premium*		47,781	Financing Costs		436,138
Total Sources	$	25,047,781	**Total Uses**	$	25,047,781

*Net Premium is the amount by which the price of a bond exceeds its par value.

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. 283 in an amount not to exceed $25,000,000 for Harvey Mudd College 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 Inc., the Authority's financial advisor, concur with the Authority's staff recommendations.

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STAFF SUMMARY AND RECOMMENDATION

Harvey Mudd College ("HMC")
April 28, 2011
Resolution Number: 283

I. PURPOSE OF FINANCING: HMC plans to use bond proceeds to provide financing for the acquisition, construction, expansion, equipping and improvement of educational facilities located throughout the main campus.

Project Fund:	***$24,611,643***

Projects include the construction of a new Teaching and Learning Building consisting of approximately 70,000 square feet. The building will consist of classrooms, lecture facilities, faculty offices, and administrative space. Included in HMC's Master Plan is the construction of a new 120 bed residence hall . HMC also plans to purchase property located adjacent to HMC along Foothill Boulevard to be used for an educational facility. In addition, HMC is planning several renovation projects that may include interior/exterior renovations to Kingston Hall, Platt Campus Center, and related parking for the projects listed above.

Environmental Benefits:
HMC's Board of Trustees passed a resolution in 2008 that requires all new buildings on campus to be certified at least LEED Silver or equivalent. The new Residence Hall will meet that requirement. Construction documents for the Teaching and Learning Building were prepared with the goal of obtaining LEED Platinum status. The upgrades and renovations to Kingston Hall and Platt Campus Center will create a benefit to the environment by incorporating equipment that will improve energy efficiency and extend the useful life of the facilities.

Financing Costs..		**436,138**
Underwriter's Discount..	$227,138	
Costs of Issuance	209,000	
TOTAL USES OF FUNDS		**$25,047,781**

I. 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 such changes at the meeting.

After reviewing HMC's credit profile, including its current financial profile, prior bond transactions and considering what the market will support, the financing team has concluded that the covenants listed below align the interests of HMC, the Authority, and the investors and; therefore, are appropriate to this transaction. The financing team notes that these covenants contain necessary tax and legal covenants that are consistent with those that have applied to HMC's prior bond transactions and HMC's current financial situation does not suggest that additional covenants should be required.

- **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.*
- **Maintain Tax-Exempt Status of the Bonds.** *Borrower covenants in the Loan Agreement that it will not take or, to the extent within its control, permit to be taken any action which will cause the interest on the Bonds to become includable in gross income of the Holders of the Bonds for federal income tax purposes.*

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

[1]Capitalized terms are defined in the Indenture.

II. FINANCIAL ANALYSIS:

Harvey Mudd College
Statement of Activities
Unrestricted

	Year Ended June 30, 2010	2009	2008
Operating			
Revenues and release of net assets:			
Tuition, fees, room and board	$ 37,508,051	$ 34,654,738	$ 32,941,752
Less: financial aid	(12,314,982)	(10,993,651)	(10,143,981)
Net student revenues	25,193,069	23,661,087	22,797,771
Federal grants	3,400,320	2,665,767	2,747,141
Private gifts and grants	6,517,136	15,571,862	5,452,782
Private contracts	792,925	1,425,614	1,480,817
Endowment Payout	10,950,731	10,570,992	10,096,250
Other Investment returns	529,849	328,181	1,165,835
Other revenue	871,269	1,603,555	1,315,728
Release and reclassification of net assets			
Operations	510,366	2,151,699	887,901
Annuity and life income	69,204	261	-
Plant facilities	550,220	159,572	218,112
Total revenues and release of net assets	49,385,089	58,138,590	46,162,337
Expenses:			
Instruction	19,579,424	18,915,556	18,391,547
Research	2,760,918	2,657,978	3,045,803
Public service	837,762	736,476	834,895
Academic support	5,323,209	5,248,829	4,893,625
Student services	4,949,165	4,923,047	4,907,954
Institutional support	8,003,907	7,945,440	7,360,773
Auxiliary enterprises	6,498,897	6,447,340	6,531,059
Total expenses	47,953,282	46,874,666	45,965,656
Excess of revenues over expenses	1,431,807	11,263,924	196,681
Non-Operating			
Other changes in net assets			
Redesignation of net assets (UPMIFA)	-	(56,684,371)	-
Pooled investment gains (losses) net of allocations to operations	3,222,503	(60,966,366)	(12,999,983)
Other comprehensive pension expense	(316,165)	(733,940)	(272,058)
Actuarial adjustment	-	-	-
Change in net assets	**4,338,145**	**(107,120,753)**	**(13,075,360)**
Net Assets:			
Beginning of year	97,278,004	204,398,757	217,474,117
End of year	$ 101,616,149	$ 97,278,004	$ 204,398,757

Harvey Mudd College

Statement of Financial Position

	As of June 30,		
	2010	2009	2008
ASSETS:			
Cash	$ 230,925	$ 397,268	$ 547,600
Accounts receivable, net	1,941,685	1,475,298	1,237,162
Prepaid expenses, deposits and other	804,772	658,312	721,028
Notes receivable, net	3,984,898	3,708,945	3,297,899
Contributions receivable, net	24,669,936	26,277,629	6,596,251
Investments	235,235,477	222,090,163	275,235,407
Plant facilities, net	59,812,015	58,799,788	47,857,960
Total assets	$ 326,679,708	$ 313,407,403	$ 335,493,307
LIABILITIES			
Accounts payable and accrued expenses	$ 4,172,808	$ 3,232,092	$ 3,492,656
Deposits and deferred revenues	480,857	579,390	439,818
Life income and annuities payable	5,062,147	5,183,401	6,407,193
Liability for staff retirement plan	1,328,879	995,379	368,926
Note and bonds payable	3,876,194	5,004,118	6,079,014
Government advances for student loans	3,034,046	2,900,856	2,867,870
Funds held in trust for others	319,144	298,625	234,566
Asset retirement obligation	1,124,052	1,074,094	1,026,361
Total liabilities	19,398,127	19,267,955	20,916,404
Net assets:			
Unrestricted	101,616,149	97,278,004	204,398,757
Temporarily restricted	105,811,255	97,443,739	13,407,999
Permanently restricted	99,854,177	99,417,705	96,770,147
TOTAL NET ASSETS	307,281,581	294,139,448	314,576,903
TOTAL LIABILITIES AND NET ASSETS	$ 326,679,708	$ 313,407,403	$ 335,493,307

Financial Ratios

	Proforma FYE 6/30/10 (a)	2010	2009	2008
Debt service coverage (x)	1.27	2.88	10.08	1.99
Debt to expendable net assets (x)	0.14	0.02	0.03	0.03
Expendable net assets to operations (x)		4.33	4.15	4.74
Margin (%)		2.90	19.37	0.43

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

Financial Discussion:

HMC has exhibited sound operating results with significant improvements in the areas of private gifts and investments.

HMC continues to show positive operating results over the review period posting an operating margin at approximately 3% in FY 2010. In FY 2010, total unrestricted revenue was $49.4 million, an approximate 7% increase from $46.2 million in FY 2008. In FY 2009, HMC received a pledge in the amount of $25 million from a Trustee, which is included in the Private Gifts and Grants as well as Contributions Receivable for a total unrestricted revenue of $58.1 million. Consequently, Contributions Receivable increased significantly from $6.6 million in FY 2008 to $24.7 million in FY 2010. Net student revenues increased approximately 11% from $22.8 million in FY 2008 to $25.2 million in FY 2010 due to increases in tuition and fees, room and board, as well as enrollments.

Due to the recent economic decline, unrestricted pooled investment losses net of allocations to operations were nearly $61 million in FY 2009, but improved with a gain in FY 2010 of about $3.2 million. The improvement can be contributed to HMC's investment policy which has structured its investment pool such that it does not change significantly with the trends in the overall market. This policy allows for a moderate declines in downward markets and as a result, typically have moderate increases in improving markets.

HMC's financial strength is sound with significant net assets and good debt service coverage levels.

HMC's current financial strength appears to be strong. In FY 2009, HMC implemented a new accounting principle (FSP FAS 117-1)[2], which resulted in reclassifying $56.7 million of expendable appreciation on donor-restricted endowment funds from unrestricted to temporarily restricted net assets. This is a one-time accounting change. FY 2010 exhibited a 4% increase in total net assets from $294.1 million in FY 2009 to $307.3 million in FY 2010 and has improved since a 6% decline in net assets from FY 2008 to FY 2009. The decline was primarily due to its significant investment losses while an increase in FY 2010 was primarily due to their investment gains.

Cash declined approximately 58% from FY 2008 to FY 2010 due to HMC's decline in short term cash needs. HMC maintains a small amount of cash to cover anticipated expenditures that occur over the short term. Excess cash is transferred to interest earning accounts, which are included in its investments. Accounts receivable has increased by about 57% from FY 2008 to FY 2010 primarily due to an increase in receivables from Federal Grants.

Over the review period, debt to expendable net assets ratio has remained historically low with a three-year average of 0.03x, and with the proposed financing, the debt to expendable net assets ratio remains low at 0.14x. The debt service coverage ratio is currently 2.88x, and with the proposed financing the proforma debt service coverage ratio appears to become approximately 1.27x, indicating HMC's ability to carry the additional debt.

[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.

III. BACKGROUND

General:

Founded in 1955, HMC is an independent co-educational science and engineering undergraduate college. The campus consists of 38 acres located in the Claremont, California and currently enrolls approximately 771 students. HMC is a member of The Claremont Colleges, a consortium of five undergraduate colleges and two graduate institutions, which share facilities and programs such as a central library system, ethnic programs, and student health care. As part of the Claremont Colleges, the seven institutions occupy contiguous campuses and jointly finance a central administration for the operation of shared programs and facilities and services. Although HMC is responsible for its share of payments to operate facilities, which are owned jointly by the seven institutions, it is not responsible for the indebtedness of any of the other six institutions. In addition, none of the other six Claremont institutions has any responsibility to make payments with respect to the bonds or any other indebtedness of HMC.

Administration:

HMC is governed by a self-perpetuating Board of Trustees. There are presently 50 members of the Board: 37 regular voting trustees and 13 emeritus non-voting trustees. Each regular trustee generally serves on at least one Board committee and is expected to participate fully in the deliberations and work of that committee. Regular trustees are elected to serve three-year terms.

Accreditations and Affiliations:

HMC is fully accredited by the Western Association of Schools and Colleges ("WASC"), of which it is a member. The most recent accreditation was received in 1999 and is currently in the process of completing a WASC review. In addition, HMC is accredited by the Accreditation Board for Engineering and Technology. Additionally, HMC is a member of the American Association of Collegiate Registrars and Admission Officers; Association of Governing Boards of Universities and Colleges; Association of Independent California Colleges and Universities; American Association of Universities-Women; American Council on Education; The College Board; National Association of College and University Business Officers; American Association University Professors; College and University Professional Association for Human Resources; National Association of Student Financial Aid Administrators; National Association of College Admission Counselors; Association of Independent Technological Universities; National Association of Student Personnel Administrators: American Association of Higher Education; Council on Undergraduate Research; National Association of Independent Colleges and Universities; Council for Advancement and Support of Education; Independent Colleges of Southern California; Professionals in Human Resources Association; American Society for Engineering Education; Annapolis Group; Claremont Chamber of Commerce; Society of Women Engineers; American Mathematical Society; Association for Institutional Research; Higher Education Datasharing; American Society for Engineering Education; and the Educause.

Academic Programs:

HMC's curriculum is designed to create scientist and engineers with unusual breadth in their technical education and a firm academic grounding in the humanities and social sciences, offering Bachelor of Science degrees in biology, chemistry, computer science, engineering, mathematics, physics, mathematical biology, a joint major in computer science and mathematics, an individual program of studies, or an off-campus major at one of the other Claremont Colleges. Students may also take courses at any of the other Claremont Colleges.

IV. OUTSTANDING DEBT:

Issue:	Original Issue Amount	Amount Outstanding as of 06/30/10	Estimated Amount Outstanding After Proposed Financing
Existing Debt:			
CEFA Pool, Series 1997 C*	$ 5,875,000	$ 485,000	$ -
CEFA Series 2003	7,110,000	3,530,000	3,530,000
Other Note	21,259	13,064	13,064
Proposed:			
CEFA Revenue Bonds, Series 2011			**$ 25,000,000**
Total		$ 4,028,064	$ 28,543,064

* As of March 1, 2011, Harvey Mudd College's portion of the CEFA Pool, 1997 C has been defeased. Current balance is zero.

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 No. 283 in an amount not to exceed $25,000,000 for Harvey Mudd College 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 Inc., the Authority's financial advisor, concur with the Authority's staff recommendations.