

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY  
BOND FINANCING PROGRAM**

**EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Loyola Marymount University ("LMU") 1 LMU Drive Los Angeles, CA 90045-2659 Los Angeles County</p> <p><b>Facility Type:</b> Private University</p> <p><b>Project Location:</b> Los Angeles, CA</p> <p><b>Accreditations:</b> Western Association of Schools and Colleges and American Bar Association</p> <p><b>Prior Borrower:</b> Yes</p>	<p><b>Amount Requested:</b> \$110,000,000</p> <p><b>Date Requested:</b> February 25, 2010</p> <p><b>Resolution Number:</b> 272</p>																				
<p><b>Use of Proceeds:</b> 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><b>Type of Issue:</b> Negotiated public offering, up to approximate 5 year maturity (Series 2010B) &amp; 30-year maturity (Series 2010A), tax exempt fixed rate (Series 2010A) and/or variable rate (Series 2010B)</p> <p><b>Security Loan Provisions:</b> General Obligation Pledge</p> <p><b>Credit Enhancement:</b> None</p> <p><b>Underlying Credit Rating:</b> A2 (Moody's)</p> <p><b>Senior Manager:</b> Morgan Stanley</p> <p><b>Co-Manager:</b> Bank of America Merrill Lynch</p> <p><b>Bond Counsel:</b> Orrick, Herrington &amp; Sutcliffe LLP</p>																					
<p><b>Environmental Benefits:</b> 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><b>Financial Overview:</b> 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>																					
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<p><b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>																					
<p><b>Staff Recommendation:</b> 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 &amp; 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>
<b>Revenues:</b>			
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>
<b>Expenses:</b>			
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
<b>Non-operating Revenues and Expenses:</b>			
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>
<b>ASSETS:</b>			
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
<b>LIABILITIES AND NET ASSETS:</b>			
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
<b>Net assets:</b>			
Unrestricted	435,345	582,937	551,082
Temporarily restricted	81,864	23,772	23,553
Permanently restricted	144,936	139,318	127,381
<b>TOTAL NET ASSETS</b>	<b>662,145</b>	<b>746,027</b>	<b>702,016</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 924,046</b>	<b>\$ 1,006,883</b>	<b>\$ 953,641</b>

Financial Ratios

	<b>Proforma</b>	<u>2009</u>	<u>2008</u>	<u>2007</u>
	<b>FYE 5/31/09</b>			
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>
<b>Existing Debt:</b>			
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	-
<b>Proposed:</b>			
<b>CEFA, Series 2010</b>			<b>110,000,000</b>
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.