CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

BOND FINANCING PROGRAM

EXECUTIVE SUMMARY

Applicant: Claremont McKenna College ("CMC")
500 East 9th Street
Claremont, California
Los Angeles County

Amount Requested: $6,000,000
Date Requested: Dec. 2, 2010
Resolution Number: 280

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

Use of Bond Proceeds: Bond proceeds will be used to refund a portion of the CEFA Series 1999 Bonds. The net present value savings is estimated to be approximately $433,000 based on the interest rate environment in early November 2010.

Type of Issue: Negotiated public offering, fixed rates; $5,000 denominations
Credit Enhancement: None
Expected Credit Rating: Aa1 (Moody's)
Underwriter: Prager, Sealy & Co., LLP
Bond Counsel: Orrick, Herrington and Sutcliffe LLP

Environmental Benefits: Because this is a refunding of existing CEFA debt, environmental benefits are not applicable to this financing.

Financial Overview: CMC's recent operations have exhibited moderate operating profits supported by a growing revenue base from net tuition and fees and private gifts and grants. CMC's financial strength appears to be sound with good liquidity and significant financial resources.

Estimated Sources of Funds ($000):		**Estimated Uses of Funds ($000):***	
Bond Proceeds	$6,000	Refund CEFA Series 1999 Bonds	$5,750
		Financing Costs	250
Total Sources	$6,000	Total Uses	$6,000

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 280 in an amount not to exceed $6,000,000 for Claremont McKenna 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, the Authority's financial advisor, concurs with the Authority's staff recommendations.

(MM)

STAFF SUMMARY AND RECOMMENDATION

BOND FINANCING PROGRAM

December 2, 2010

Resolution Number: 280

Claremont McKenna College ("CMC")

I. PURPOSE OF FINANCING: CMC is seeking to refund the callable portion of its CEFA Series 1999 Bonds. This refunding is expected to result in a net present value savings of $433,000 based on the interest rate environment in early November 2010. In addition, CMC plans to change the principal payment dates from November to January 1 in order to align the debt service schedule with CMC's recent bond offerings.

Refund CEFA Series 1999 Bonds		**$5,750,000**
CMC plans to refund the remaining callable balance CEFA Series 1999 bonds. The original bonds were used to refund CMC's portion of the CEFA Series 1992 Bonds and CMC's portion of the CEFA 1995 Series A Bonds (which refunded previously issued CEFA bonds), the aggregate proceeds of which were applied to finance the acquisition, construction, expansion, rehabilitation, remodeling, renovation and equipping of certain CMC educational facilities including: Benson, Appleby, Green and Stark Residence Halls; student apartments; Collins Dining Hall; Emett Student Union and Roberts Academic Hall.		
Financing Costs		**250,000**
Cost of Issuance	$150,000	
Underwriter's Expense	100,000	
Total Uses of Funds		**$6,000,000**

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.*
- **Limited Permitted Encumbrances.** *Borrower is subject to a restrictive set of allowable encumbrances it may incur pursuant to the Loan Agreement.*
- **Negative Pledge Against Prior Liens.** *Borrower agrees not to create or assume any Lien upon Borrower's Property other than the Permitted Encumbrances.*
- **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 STATEMENTS AND ANALYSIS:

Claremont McKenna College
Statement of Activities
Unrestricted ($000s)

	Fiscal Year Ended June 30,		
	2010	2009	2008
Operating activities:			
Revenues:			
Net student revenues	$ 43,413	$ 40,099	$ 36,650
Private gifts & grants	3,845	3,950	12,188
Federal grants	1,695	1,056	1,270
Private contracts	644	759	558
Spending policy income	6,926	9,060	8,583
Other investment income	2,349	1,266	2,813
Other revenues	2,081	1,908	1,893
Release of net assets			
Operations	11,116	11,306	4,516
Restricted spending policy income	15,868	14,253	12,878
Annuity & life income	491	209	1,822
Total revenues	88,428	83,866	83,171
Expenses:			
Instruction	26,658	26,307	22,535
Research	5,753	5,874	6,272
Academic support	7,527	7,310	6,173
Student services	11,945	10,932	9,684
Institutional support	14,343	14,159	15,574
Auxiliary enterprises	13,916	13,565	12,145
Total expenses	80,142	78,147	72,383
Increase in net assets from operating activities	8,286	5,719	10,788
Other changes in net assets:			
Realized & unrealized gains (losses), net of spending allocation	20,714	(152,883)	(21,308)
Release of net assets, plant facilities	165	5,287	
Other			(181)
Staff retirement plan comprehensive loss	(552)	(1,057)	(394)
Donor redesignations between net asset categories	(16)	(87,895)	328
	20,311	(236,548)	(21,555)
Change in unrestricted net assets	**28,597**	**(230,829)**	**(10,767)**
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	110,206	341,035	351,802
UNRESTRICTED NET ASSETS, END OF YEAR	$ 138,803	$ 110,206	$ 341,035

Claremont McKenna College

Statement of Financial Position ($000s)

	As of June 30, 2010	2009	2008
ASSETS:			
Cash	$ 630	$ 398	$ 860
Accounts & notes receivable	17,794	17,246	17,642
Preapid expenses & deposits	3,952	3,334	2,262
Contributions receivable	163,095	176,749	186,331
Beneficial interest from revocable trusts	-	2,580	2,681
Beneficial interest in trusts	4,763	4,743	4,424
Investments	594,087	543,119	633,729
Plant facilities	137,045	111,798	91,333
Total assets	$ 921,366	$ 859,967	$ 939,262
LIABILITIES AND NET ASSETS:			
Accounts payable and accrued liabilities	15,399	$ 9,928	$ 13,569
Funds held in trust for others	2,360	2,075	2,516
Deposits and deferred revenues	1,321	1,385	1,543
Staff retirement liability	2,010	1,432	529
Life income & annuities payable	40,959	42,504	45,756
Bonds payable	139,422	140,392	61,010
Government advances for student loans	3,208	3,232	3,182
Refundable advances from revocable trusts	-	2,580	2,681
Asset retirement obligation	755	726	722
Total liabilities	205,434	204,254	131,508
Net assets:			
Unrestricted	138,803	110,206	341,035
Temporarily restricted	321,119	302,637	225,499
Permanently restricted	256,010	242,870	241,220
TOTAL NET ASSETS	715,932	655,713	807,754
TOTAL LIABILITIES AND NET ASSETS	$ 921,366	$ 859,967	$ 939,262

Financial Ratios

	Proforma FYE 6/30/10 (a)	2010	2009	2008
Debt service coverage (x)	2.46	2.51	3.8	5.99
Debt to expendable net assets (x)	0.30	0.30	0.34	0.11
Expendable net assets to operations (x)		5.74	5.28	7.83
Margin		9%	7%	13%

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

Financial Discussion:

CMC's recent operations have exhibited moderate operating profits supported by a growing revenue base from net tuition and fees and private gifts and grants.

CMC exhibited moderate operating growth over the review period. In FY 2010 total unrestricted revenues were $88.4 million, a 6% increase from $83.1 million in FY 2008. Key factors accounting for this revenue growth include the consistent growth of net student revenues and increased private gifts and grants.

Net student revenue represents 49% of CMC's total revenue base, providing CMC with liquidity and flexibility. Net student revenue has grown an average of 8.8% over the past three years. As a result of tuition, room and board charge increases and an increase in the amount of financial aid awarded, net student revenue equaled $43.4 million in FY 2010, up 18% from $36.7 million in FY 2008.

CMCs experienced an unrestricted non-operating gain of $20.3 million in FY 2010. However, in FY 2009 and FY 2008, CMC experienced unrestricted non-operating losses of $236.5 million and $21.5 million, respectively, were comprised mostly from realized and unrealized investment gains and losses, net of CMC's investment income spending allocation. The unrealized losses on investments can be attributed to fluctuations in market value.

Total operating expenses increased in FY 2010 by 2.5% from FY 2009. The most significant changes were related to the new Robert Day School Master's program in finance. Expenses directly related to the Master's program were primarily funded by corresponding increases in operating revenue through the release of temporarily restricted gifts. The program enrolled 20 students in its inaugural year, and tuition charges for the program were heavily subsidized as part of the release of temporarily restricted gifts. Part of the reductions in expenses implemented in FY 2010 included a salary freeze on all faculty and staff salaries for one year. Several staff positions were eliminated as part of a voluntary early retirement plan.

CMC's financial strength appears to be sound with good liquidity and significant financial resources.

The balance sheet reflects a decrease in investments, endowment and net assets since FY 2008, due to the decline in the broader markets. Unrestricted net assets have declined from $341 million in FY 2008 to $138 million in FY 2010. This decrease is attributed to realized and unrealized investment losses and the net asset reclassification required by the implementation of FASB Staff Position (FSP FAS 117-1)[2]. Plant facilities have increased due to the construction in progress of several projects throughout the campus. Debt service coverage is based on operating results and appears solid with a debt service coverage ratio of 2.51x. Including the proposed refunding, CMC's proforma debt service coverage remains a solid 2.46x.

[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:

CMC is a non-profit, privately endowed, coeducational liberal arts college with an emphasis on economics, government, and international relations. Enrollment for the 2010-2011 academic year is approximately 1,270 full-time equivalent students, 1,253 of whom are undergraduate and 17 graduate students. CMC was founded in 1946 as Claremont Men's College, became coeducational in 1976, and was renamed in 1981 in honor of founding trustee Donald C. McKenna.

CMC's mission is to prepare students for leadership roles in business, government, and the professions. A focused mission, prominent faculty, the Marian Miner Cook Athenaeum speaker series, a Washington D.C. internship program, a community service internship program, the Children's School at Claremont McKenna College, and ten on-campus research institutes are a few of the many distinguishing features of the College. The primary academic and residential campus consists of approximately 50 acres and 40 buildings.

The College is a member of The Claremont Colleges, a consortium of five undergraduate colleges, two graduate schools, and a central coordinating institution, which share common resources that rival those at major universities. Modeled on the Oxford system in England, the consortium is located 35 miles east of Los Angeles at the foot of the San Gabriel mountains.

Administration:

CMC is governed by a self-perpetuating Board of Trustees composed of not less than 25 and not more than 46 members. There are currently 41 trustees, including 36 regular trustees, three alumni trustees and two ex-officio trustees. Regular trustees are elected to renewable, three-year terms, and approximately one-third of the regular trustees are elected annually. Alumni trustees are elected to a single three-year term. The ex-officio trustees, who are the President of the Alumni Association and the President of the Parents Network, each serve a one-year term.

At the annual meeting, the Board of Trustees elects a Chair and one or more Vice Chairs to serve for one year. In addition to an Executive Committee, which acts for the Board between meetings, the Board has eight advisory committees which consist of: Academic Affairs, Audit, Board Affairs, Buildings and Grounds, College Advancement, Finance, Investment, and Student Affairs. The full Board of Trustees meets at least four times a year.

Accreditations and Affiliations:

CMC is 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 most recent WASC visit was in October, 2009. The next WASC visit is scheduled for the fall of 2011 and will cover the "Educational Effectiveness Review."

Academic Programs:

CMC offers a liberal arts curriculum with 33 separate majors in ten departments, including Joint Science. Interdisciplinary majors are available in a number of additional subjects through The Claremont Colleges consortium, as are options for independent study and combined-degree programs. Students may graduate with single, dual, double, or individualized majors. They may also elect to complete majors at any of the other undergraduate institutions within The Claremont Colleges.

Commencing with the 2009-2010 academic year, CMC has offered through the Robert Day School of Economics and Finance a master's program in finance to selected students who complete an additional year of postgraduate education in financial economics.

OUTSTANDING DEBT:

Issue:	Original Amount	Amount Outstanding As of 6/30/10	Amount Outstanding after Proposed Financing
Existing:			
CEFA. Series 1999	$24,000,000	$8,162,000	$1,895,000
CEFA Series 2003	9,975,000	8,660,000	8,660,000
CEFA Series 2007	40,425,000	39,870,000	39,870,000
CEFA Series 2009	83,095,000	83,095,000	83,095,000
Proposed:			
CEFA, Series 2010			**6,000,000**
Total		$139,787,000	$139,520,000

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 *(not applicable)*

VI. STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution Number 280 in an amount not to exceed $6,000,000 for the Claremont McKenna 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, the Authority's financial advisor, concurs with the Authority's staff recommendations.