CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM

EXECUTIVE SUMMARY

Applicant:	Pomona College ("Pomona") Claremont, CA Los Angeles County	**Amount Requested:** **Date Requested:** **Resolution Number:**	$8,000,000 January 27, 2011 282
Facility Type:	Private University		
Project Site:	Claremont, CA		
Accreditation:	Western Association of Schools and Colleges		

Use of Proceeds: Bond proceeds will be used to refund all or a portion of the CEFA Series 2001 bonds. The refunding of these bonds is expected to provide Pomona with a net present value savings of approximately $510,000 or 6.6%.

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

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

Financial Overview: Pomona has exhibited steadily increasing total revenues and positive operating profits over the review period. Pomona's financial strength is sound with sizeable net assets and good debt service coverage levels.

Sources of funds:		**Uses of funds:**	
Par Amount of Bond	$8,000,000	Refunding	$7,781,939
Equity Contribution	147,644	Financing Costs	306,460
Original Issue Discount	(59,245)		
Total Sources	$8,088,399	Total Uses	$8,088,399

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. 282 in an amount not to exceed $8,000,000 for Pomona 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, concur with the Authority's staff recommendations.

STAFF SUMMARY AND RECOMMENDATION

Pomona College ("Pomona")
January 27, 2011
Resolution Number: 282

I. PURPOSE OF FINANCING: Pomona is seeking to refund a portion of its debt to position themselves with more affordable and stable rate structures.

Refunding **$7,781,939**

Pomona plans to refund all or a portion of the CEFA Series 2001 bonds.

The current refunding of the CEFA Series 2001 bonds is expected to provide Pomona with a net present value savings of approximately $510,000 or 6.6%. The bonds were originally issued to refund the outstanding balance of the CEFA Series 1992 bonds. The CEFA Series 1992 bond proceeds were used to fund building renovations and to advance refund the CEFA Series 1985 and 1987 bonds.

Financing Costs **$306,460**

Underwriter Fee and Expenses $133,360
Costs of Issuance $173,100

TOTAL USES OF FUNDS **$8,088,399**

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 such changes at the meeting.

After reviewing Pomona'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 Pomona, 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 Pomona's prior bond transactions and Pomona'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.*

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 ANALYSIS:

Pomona College
Statement of Activities
Unrestricted ($000's)

	Year Ended June 30,		
	2010	2009	2008
Revenues:			
Student revenues	$ 49,349	$ 46,960	$ 46,731
Federal grants and contracts	1,586	1,327	1,543
Private gifts and grants	7,666	7,198	11,777
Private contracts	641	613	578
Investment income	8,708	10,446	15,325
Net realized gains, appropriated	66,044	61,060	45,995
Sales and services of education departments	449	466	289
Other sources	404	560	729
Total revenues	134,847	128,630	122,967
Expenses:			
Instruction	51,168	51,237	49,520
Research	2,408	2,689	3,141
Public service	1,042	569	621
Academic support	12,934	13,109	13,049
Student services	12,961	14,108	13,817
Institutional support	20,490	22,825	20,142
Auxiliary enterprises	18,223	17,529	17,505
Total expenses	119,226	122,066	117,795
Increase in net assets from operating activities	15,621	6,564	5,172
Non-operating activities:			
Net realized and unrealized gain on investments	65,987	(177,906)	18,048
Net realized gains appropriated	(66,044)	(61,060)	-
Adjustment of actuarial liabilities	-	(13,747)	1,787
Changes in actuarially determined gift liabilities	4,298	-	-
Comprehensive loss on staff retirement plan	(902)	(1,754)	(78)
Annuity and life income funds released	253	748	335
Net assets released from restriction	38,728	40,403	8,783
Change in designation of donor contributions	1,499	(816)	(250)
Increase/(decrease) in net assets from non-operating activities	43,819	(214,132)	28,625
Increase/(decrease) in net assets before effect of a change in accounting principle	-	(207,568)	-
Effect of a change in accounting principle	-	(814,154)	-
Increase/(decrease) in net assets	59,440	(1,021,722)	33,797
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	769,713	1,791,435	1,757,638
UNRESTRICTED NET ASSETS, END OF YEAR	$ 829,153	$ 769,713	$ 1,791,435

Pomona College

Statement of Financial Position (000's)

	As of June 30,		
	2010	2009	2008
ASSETS:			
Cash and cash equivalents	$ 3,148	$ 2,113	$ 1,508
Collateral held for loaned securities	-	-	64,781
Accounts and other receivables	2,608	2,631	1,696
Prepaid expenses and deposits	1,666	1,674	1,112
Short-term investments	92,753	72,098	56,364
Contributions receivable	46,484	39,511	24,662
Notes receivable	16,402	17,333	18,588
Long-term investments:			
Pooled	1,500,622	1,391,863	1,870,112
Separately invested	92,785	83,367	97,986
Assets held for property, plant and equipment	36,438	72,747	98,652
Property, plant and equipment	312,407	276,161	257,469
Total assets	$ 2,105,313	$ 1,959,498	$ 2,492,930
LIABILITIES AND NET ASSETS:			
Accounts payable	$ 15,313	$ 9,170	$ 14,198
Accrued payroll and other liabilities	24,394	20,949	15,989
Securities lending obligation	-	-	64,781
Life income and annuities obligation	63,116	60,007	60,363
CEFA bonds payable	185,525	188,762	190,433
Government advances for student loans	5,076	5,027	4,939
Funds held in trust for others	25,870	23,592	26,096
Total liabilities	319,294	307,507	376,799
Net assets:			
Unrestricted	829,153	769,713	1,791,435
Temporarily restricted	653,466	597,287	45,820
Permanently restricted	303,400	284,991	278,876
TOTAL NET ASSETS	1,786,019	1,651,991	2,116,131
TOTAL LIABILITIES AND NET ASSETS	$ 2,105,313	$ 1,959,498	$ 2,492,930

Financial Ratios

	Proforma FYE 6/30/10 (a)	2010	2009	2008
Debt service coverage (x)	3.15	3.74	3.00	3.88
Debt to expendable net assets (x)	0.12	0.13	0.14	0.10
Expendable net assets to operations (x)		12.44	11.20	15.60
Margin		12%	5%	4%

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

<u>Financial Discussion:</u>

Pomona has exhibited steadily increasing total revenues and positive operating profits over the review period.

Pomona continues to post positive operating results over the review period. In FY 2010 total unrestricted revenue was $134.8 million, a 10% increase from $122.9 million in FY 2008. These positive earnings are the result of higher revenues generated from a diversified revenue base coupled with a slight decrease in expenses. Tuition increases and a larger student body resulted in an approximate 5% increase in net tuition and fees, from $46.7 million in FY 2008 to $49.3 in FY 2010. In addition, increases in net realized gains, federal grants and contracts and private gifts and grants also supported Pomona's operational results.

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

Pomona's current financial strength appears to be strong. In FY 2009 Pomona implemented a new accounting principle (FSP FAS 117-1)[2], which resulted in reclassifying $207.6 million of expendable appreciation on donor-restricted endowment funds from unrestricted to temporarily restricted net assets. FY 2010 exhibited an 8% increase in total net assets from $1.7 billion in FY 2009 to $1.8 billion in FY 2010.

Over the review period, debt to expendable net assets ratio has remained historically low with a three-year average of 0.12x. The debt service coverage ratio is currently 3.74x and with the proposed financing the proforma debt service coverage ratio will remain relatively unchanged at 3.15x, indicating Pomona's ability to support the additional debt.

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[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:

Pomona College ("Pomona") is one of the oldest institutions of higher learning in California. Pomona is a private, nonprofit, nonsectarian Liberal Arts College located in the city of Claremont, CA. Pomona was established in 1887-88 under the sponsorship of persons affiliated with the Congregational Churches, ties to which were severed in 1909.

Pomona is part of the Claremont Colleges, which is a consortium of five undergraduate and two graduate institutions. The seven institutions occupy contiguous campuses and jointly finance a central administration for the operation of shared programs and facilities and services. Although Pomona 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 Pomona.

Administration:

Pomona is governed by a self-perpetuating Board of Trustees, which consists of up to 42 members, including the President of the College. The Board of Trustees has legal responsibility for the management of Pomona, including its academic policy, land use and development, faculty and staff appointments and benefits, gift development, adoption of the budget and supervision of financial affairs.

Accreditations and Affiliations:

Pomona is fully accredited by the Western Association of Schools and Colleges ("WASC"), of which it is a member. This accreditation was originally granted in 1949 and was last reaffirmed in 2002. Pomona will complete its re-accreditation review by WASC in mid-2011. Additionally, Pomona is a member of the Association of American Colleges; American Association of Collegiate Registrars and Admissions Officers; American Council on Education; American Council of Learned Societies; Association of Governing Boards of Universities and Colleges; Association of Independent California Colleges and Universities; College Entrance Examination Board; Council for the Advancement and Support of Education; National Association of College and University Business Officers; Independent Colleges of Southern California; and the Consortium on the Financing of Higher Education.

Academic Programs:

Pomona offers 45 majors in the natural sciences, humanities, social sciences and fine arts. Students may also take courses at any of the other Claremont Colleges.

V. OUTSTANDING DEBT ($000's):

Issue:	Original Issue Amount	Amount Outstanding as of 06/30/10	Estimated Amount Outstanding After Proposed Financing
Existing Debt:			
CEFA, Series 1999A	$17,885	$3,710	$3,710
CEFA, Series 2001	15,220	8,800	-
CEFA, Series 2005A	41,880	41,880	41,880
CEFA, Series 2008A	59,475	59,475	59,475
CEFA, Series 2009A	62,290	62,290	62,290
Proposed:			
CEFA, Series 2011			**8,000**
Total		$ 176,155	$ 175,355

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. 282 in an amount not to exceed $8,000,000 for Pomona 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, concur with the Authority's staff recommendations.