

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

BOND FINANCING PROGRAM

EXECUTIVE SUMMARY

<p>Applicant: Art Center College of Design ("Art Center") 1700 Lida Street Pasadena, CA 91103 Los Angeles County</p> <p>Facility Type: Private University</p> <p>Project Location: South Campus, 950 South Raymond Avenue Pasadena, California Los Angeles County</p> <p>Accreditation: Western Association of Schools and Colleges</p>	<p>Amount Requested: \$13,000,000</p> <p>Date Requested: July 30, 2009</p> <p>Resolution Number: 269</p>																		
<p>Use of Proceeds: Bond proceeds will be used to refinance a taxable bank loan that was used to complete several projects on the South Campus. In addition, Art Center plans to use bond proceeds for the reimbursement of expenditures related to the completion of renovation projects for its South Campus.</p>																			
<p>Type of Issue: Negotiated public offering, variable rates</p> <p>Credit Enhancement: Anticipated Letter of Credit from Wells Fargo</p> <p>Expected Rating: Aa2/VMIG1 (Moody's) based on Letter of Credit</p> <p>Underwriter: Wells Fargo Securities</p> <p>Bond Counsel: Orrick, Herrington and Sutcliffe, LLP</p>																			
<p>Environmental Benefits: By renovating an existing facility, the Art Center 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. Art Center's South Campus is among the first LEED Certified buildings in the city of Pasadena.</p>																			
<p>Financial Status: Art Center appears to have exhibited moderate operating results in FY 2008. Total revenues appear to have increased over the review period. Art Center's balance sheet appears to be sound with approximately \$72 million in total net assets.</p>																			
<p>Estimated Sources of Funds:</p> <table><tr><td>Par Amount of Bonds</td><td style="text-align: right;">\$13,000,000</td></tr><tr><td>Equity Contribution</td><td style="text-align: right;"><u>83,000</u></td></tr><tr><td>Total Sources</td><td style="text-align: right;"><u>\$13,083,000</u></td></tr></table>	Par Amount of Bonds	\$13,000,000	Equity Contribution	<u>83,000</u>	Total Sources	<u>\$13,083,000</u>	<p>Estimated Uses of Funds:</p> <table><tr><td>Reimbursements</td><td style="text-align: right;">\$6,490,806</td></tr><tr><td>Loan Refinancing</td><td style="text-align: right;">6,150,000</td></tr><tr><td>Letter of Credit</td><td style="text-align: right;">99,194</td></tr><tr><td>Remarketing Fee</td><td style="text-align: right;">13,000</td></tr><tr><td>Cost of Issuance</td><td style="text-align: right;"><u>330,000</u></td></tr><tr><td>Total Uses</td><td style="text-align: right;"><u>\$13,083,000</u></td></tr></table>	Reimbursements	\$6,490,806	Loan Refinancing	6,150,000	Letter of Credit	99,194	Remarketing Fee	13,000	Cost of Issuance	<u>330,000</u>	Total Uses	<u>\$13,083,000</u>
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<p>Legal Review: Although disclosures were made by the applicant, the information disclosed does not appear to detrimentally affect the financial viability or legal integrity of the applicant.</p>																			
<p>Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$13,000,000 for Art Center College of Design subject to a bond rating of at least an "A" by a nationally recognized rating agency and meeting the standard bond issuance guidelines for "A" rated debt.</p>																			

STAFF SUMMARY AND RECOMMENDATION

Art Center College of Design (“Art Center”)

July 30, 2009

Resolution Number: 269

I. PURPOSE OF FINANCING: Art Center intends to use bond proceeds to refinance a taxable bank loan. In addition, Art Center plans to reimburse expenditures related to the completion of several renovation projects on the South Campus which will accommodate the growth of enrollment in the Graduate Media Design Program.

Reimbursements \$6,490,806

Art Center is in the process of renovating its South Campus, a 100,000 square-foot facility. South Campus is in a former industrial zone now designated by the city of Pasadena for research, medical and educational uses and the building is among the first LEED Certified buildings in the city. The facility is home to Art Center’s non-degree Public Programs as well as the Graduate Art Complex, Graduate Media Design Program, Archetype Press, Printmaking Studio and the Judy Slasky Memorial Rooftop Garden. South Campus renovations include the construction, furnishing and equipping of workstations, classrooms, faculty and administrative offices, studio and multi-media presentation spaces. The largely-completed project consists of partitioning a large space formerly used as a wind tunnel for testing aircraft designs. Space was converted to classrooms, faculty offices, presentation space, and bathrooms. Electrical upgrades, lighting, HVAC and other improvements were also a part of the project. The upcoming phase of the project will convert an unused vacant room into a media center for Art Center students.

Environmental Benefits:

Art Center’s decision to renovate an existing facility has an overall lower environmental impact as compared to the construction of a new facility. Benefits include reducing the amount of waste generated and the amount of new materials required. Additionally, as with all Art Center projects, Art Center will maintain a mandate of sustainability by using recyclable materials and passive-solar energy sources.

The renovated South Campus building is among the first LEED certified buildings in Pasadena.

Refinancing 6,150,000

In 2003, Art Center obtained a taxable bank loan to construct classrooms, galleries, studio spaces, administrative offices and a garden on the South Campus. The original loan amount was \$9 million with fixed interest rate of 5.6% and a final maturity of June 1, 2013. The project was completed in 2004.

Letter of Credit 99,194

Remarketing Fee 13,000

Financing costs 330,000

Costs of Issuance..... \$220,000

Underwriter Fees and Expenses.....110,000

TOTAL USES OF FUNDS**\$13,083,000**

II. FINANCIAL ANALYSIS:

Art Center College of Design
Statement of Activities
Unrestricted (\$000s)

	Year Ended December 31,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues:			
Tuition and fees, net	\$ 57,037	\$ 54,731	\$ 52,473
Private gifts and grants	836	429	1,647
Investment and other income	730	1,060	1,485
Spending policy income	140	118	152
Sales and services of auxiliary enterprises	449	451	781
Other sources	1,334	1,230	1,008
Amounts released from restrictions	3,700	6,170	4,660
Total revenues	<u>64,226</u>	<u>64,189</u>	<u>62,206</u>
Expenses:			
Education	44,519	46,413	45,600
Student services	5,978	5,558	5,691
Administration	10,564	9,055	9,421
Advancement	2,484	2,106	2,378
Auxiliary services	535	530	504
Total expenses	<u>64,080</u>	<u>63,662</u>	<u>63,594</u>
Change in net assets from operations	146	527	(1,388)
Other changes in net assets:			
Endowment income, net of allocation to operations	1,066	1,382	705
Net change in actuarial obligations	70	19	(47)
Net change in fair value of investments	(12,513)	1,697	1,637
Loss on impairment of long-lived assets	(3,685)	-	-
Net asset reclassification	(3,125)	-	-
Other expenses	(261)	(258)	(261)
Change in net assets from other changes	<u>(18,448)</u>	<u>2,840</u>	<u>2,034</u>
Change in net assets	(18,302)	3,367	646
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>48,742</u>	<u>45,375</u>	<u>44,729</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 30,440</u>	<u>\$ 48,742</u>	<u>\$ 45,375</u>

Art Center College of Design
Statement of Financial Position (\$000s)

	As of December 31,		
	<u>2008</u>	<u>2007</u>	<u>2006</u>
ASSETS:			
Cash and cash equivalents	\$ 6,502	\$ 3,778	\$ 4,447
Accounts and notes receivable, net	3,950	24,425	3,318
Contributions receivable, net	949	1,775	2,835
Investments	47,776	59,706	55,559
Other assets	202	441	802
Bond issuance costs, net	362	377	393
Property, plant and equipment, net	46,762	50,613	52,965
Total assets	\$ 106,503	\$ 141,115	\$ 120,319
LIABILITIES AND NET ASSETS:			
Accounts payable	\$ 2,099	\$ 1,246	\$ 1,276
Accrued liabilities	4,121	3,514	3,060
Unearned tuition income*	-	20,714	552
Federal student loan funds	420	422	428
Annuity obligations	171	177	184
Term loan	6,070	6,698	7,326
Bonds payable	21,100	21,700	22,300
Total liabilities	33,981	54,471	35,126
Net assets:			
Unrestricted	30,440	48,742	45,375
Temporarily restricted	3,631	2,872	5,260
Permanently restricted	38,451	35,030	34,558
TOTAL NET ASSETS	72,522	86,644	85,193
TOTAL LIABILITIES AND NET ASSETS	\$ 106,503	\$ 141,115	\$ 120,319

* Unearned Tuition Income has been restated in FY 2008

Financial Ratios

	Proforma			
	FYE 12/31/08	2008	2007	2006
Debt service coverage (x)	(5.92) (a) (b)	(7.54)	2.91	2.32
Debt to expendable net assets (x)	1.00	0.80	0.55	0.59
Expendable net assets to operations (x)		0.53	0.81	0.80
Margin		0%	1%	(2%)

(a) Recalculates FY 2008 results to include the impact of this proposed financing

(b) Calculating the proforma debt service coverage ratio using only operating results equals 2.00x

Financial Discussion:

Art Center appears to have exhibited moderate operating profits in FY 2008. Total revenues appear to have increased over the review period.

Over the review period, Art Center has experienced fluctuating operating profits. Operating results in FY 2006 reflected a loss of \$1.3 million. However, results improved slightly in FY 2007 and FY 2008, which reflects moderate operating profits of \$527,000 and \$146,000, respectively.

Art Center reports that it relies on tuition as a primary source of its revenue. According to the audited financials provided by Art Center, in FY 2008, tuition revenue accounted for 88% of total revenues. Tuition has increased an average of 4% over the review period. Given Art Center's reliance on student-derived fees, ongoing tuition growth is essential for sustaining balanced operating performance. Other revenue sources include investment income, and private gifts and grants, the latter of which has experienced a decrease of 49% over the review period which can be attributed to a decrease in donations. Nonetheless, total revenues in FY 2008 have increased approximately 3% from FY 2006, totaling \$64.2 million.

Art Center's moderate operating gains were offset by \$18 million in unrestricted non-operating losses, which can be mainly attributed to the change in fair value of investments. This loss is a book-entry only and investments will generate net "appreciation" to the extent the markets improve. Art Center reports their investment portfolio has shown improvement in the current fiscal year.

Art Center's balance sheet is sound with approximately \$72 million in total net assets.

Despite the investment losses, Art Center has generally been able to maintain its total net asset levels from FY 2006 to FY 2008. In FY 2006, total net assets were \$85.2 million and increased 2% to \$86.6 million in FY 2007. Total net assets in FY 2008 dipped to \$72.5 million, primarily due to investment losses.

Investment losses also impact the calculation of the current and proforma debt service coverage ratios, which are negative 7.54x and negative 5.92X, respectively. However, it should be considered that these losses are non-cash charges and are not due to operations. Taking this into account, when the debt service coverage ratios are calculated using operational-only results, the current debt service coverage ratio improves to an acceptable 1.55x and the proforma debt service coverage ratio also improves to a solid 2.00x, indicating Art Center's likely ability to manage the additional debt.

III. BACKGROUND:

General:

Founded in 1930, Art Center College of Design (“Art Center”) is a non-profit, non-sectarian, privately endowed, co-educational institution known for preparing students for careers in the design professions.

Admission is based primarily on talent and achievement in art and design as demonstrated by the quality of a specific portfolio of original work created by the applicant for the desired major. As a result, nearly all entering undergraduates have at least one year of college experience and approximately 25% have a bachelor’s degree. Approximately half of students come from California, one-quarter from other states, and one-quarter from other countries.

The Art Center's Main Campus is located on a 175-acre hillside campus overlooking the Rose Bowl in Pasadena, California. The main campus building of approximately 217,000 square feet is an award-winning design. There is also a modular building of 17,000 square feet and two smaller structures totaling about 7,000 square feet. Art Center's South Campus consists of an approximate 98,000 square foot building near downtown Pasadena. Art Center does not own or operate student housing. Art Center offers exchange opportunities and joint programs with the nearby California Institute of Technology and Occidental College.

Administration:

Art Center is a nonprofit organization governed by a board of trustees. The board is composed of no less than 11 and no more than 27 members, who come from a variety of disciplines. They serve on a rotating basis and are expected to perform functions of benefit to the college. The president of the college reports to the trustees. In addition to an executive committee, there are currently trustee committees in the areas of education, finance, audit, governance, facilities and development.

Accreditations and Affiliations:

Art Center is fully accredited by the Western Association of Schools and Colleges (WASC). In 2007, WASC reaffirmed accreditation of the Art Center following a comprehensive review. It also has professional accreditation from the National Association of Schools of Art and Design. In addition, it has affiliations with several other professional organizations.

Academic Programs:

Art Center offers the Bachelor of Fine Arts degree in Advertising Design, Film, Fine Arts, Graphic Design, Illustration, and Photography. It offers a Bachelor of Science degree in Environmental Design, Product Design, and Transportation Design. It offers a Master of Arts degree in Art Theory and Criticism and a Masters of Fine Arts degree in Film, Fine Arts, Media Design, and Industrial Design.

IV. OUTSTANDING DEBT (000's):

Issue:	Original Issue Amount	Amount Outstanding as of 12/31/08	Estimated Amount Outstanding After Proposed Financing
Existing Debt:			
CEFA, Series 2002A	\$ 11,545	\$ 9,945	\$ 9,945
CEFA, Series 2002B	13,055	11,155	11,155
Term Loan	9,000	6,070	-
Proposed:			
CEFA, Series 2009			13,000
Total		\$ 27,170	\$ 34,100

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 \$13,000,000 for Art Center College of Design subject to a bond rating of at least an “A” by a nationally recognized rating agency and meeting the standard bond issuance guidelines for “A” rated debt.