

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

Applicant:	Art Center College of Design Pasadena, CA Los Angeles County	Amount Requested:	\$25,000,000
		Date Requested:	March 28, 2002
Project Site:	Pasadena	Requested Loan Term:	31 years
Facility Type:	Private University	Resolution Number:	198
Accreditation:	Western Association of Schools and Colleges		
Uses of Bond Proceeds: Bond proceeds will be used primarily to advance refund non-Authority debt for present value savings of approximately \$1.9 million. Remaining proceeds will be used to purchase a nearby building to be converted to classrooms, studios, computer labs, and administrative offices.			
Type of Issue:	Negotiated public offering, variable rates		
Credit Enhancement:	Anticipated Letter of Credit from Allied Irish Bank		
Expected Credit Rating:	Aa3/VMIG1 (Moody's) based on Letter of Credit		
Senior Underwriter:	Banc of America Securities LLC		
Bond Counsel:	Orrick, Herrington & Sutcliffe LLP		
Financial Overview: The College has exhibited a strong balance sheet with good liquidity, substantial financial resources and minimal debt. Debt service coverage has been good, and with the exception of 2000, the College continues to post good operating results. With the inclusion of this proposed debt, the leverage remains satisfactory and debt service coverage is good.			
<u>Sources of Revenues (\$000) - FYE 12/31/01 (unaudited)</u>			
	<u>Amount</u>	<u>Percent</u>	
Tuition and fees, net	\$37,208	81%	
Private gifts and grants	6,563	14%	
Investment income	1,348	3%	
Auxiliary activities	499	1%	
Other	469	1%	
Total	<u>\$46,087</u>	<u>100%</u>	
<u>Estimated Sources of Funds (\$000):</u>		<u>Estimated Uses of Funds (\$000):</u>	
Par Amount of Bonds	\$25,000	Advance Refunding	\$13,560
Existing Debt Service Reserve	1,195	Building purchase	5,250
		Construction/Renovation	3,800
		Reimbursement	2,975
		Financing costs	610
Total Sources	<u>\$26,195</u>	Total Uses	<u>\$26,195</u>
Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.			
Staff Recommendation: Staff recommends the Authority approve a Resolution in an amount not to exceed \$25,000,000 for Art Center College of Design, subject to the bonds having at least an A rating by a nationally recognized rating agency, the fiscal 2001 final audit being materially consistent with the financial information presented in this report, and the transaction otherwise meeting the standard bond issuance provisions for "A" rated debt.			

**STAFF SUMMARY AND RECOMMENDATION
BOND FINANCING PROGRAM**

March 28, 2002
Final Resolution Number: 198

ART CENTER COLLEGE OF DESIGN (the “College”)

PURPOSE OF FINANCING: This proposed financing will advance refund existing debt with substantial interest savings and will enable the College to replace an existing facility to provide ongoing services in a more spacious surroundings, with room to meet current and future expansion needs.

Specific details for the current financing request are as follows:

- **Advance refunding.....\$13,560,000**

The College intends to use approximately \$13.56 million to advance refund certificates of participation (COP’s) issued by the City of Pasadena in 1994. As of December 31, 2001, approximately \$12.5 million remains outstanding. The average interest rate of the refunded COP’s is approximately 6.20%. Net present value savings is estimated to be \$1.87 million.

- **Purchase/Renovate building 9,050,000**

The College will purchase a new building to replace an existing building (which then will be sold). The new building is much larger (89,000 square feet versus 17,000 square feet), more convenient to downtown Pasadena, has more parking, is close to a planned light-rail station, and has more space for future expansion. In addition to accommodating the existing uses, the larger space will enable the College to offer more non-degreed classes in a more convenient location. The new facility will include classrooms, galleries and studio spaces, administration and library facilities.

- **Reimbursement 2,975,000**

The College also intends to apply \$2,975,000 of bond proceeds for reimbursement of previously incurred capital expenditures as follows:

Construction.....	\$1,133,000
Building improvements.....	508,000
Furniture and equipment.....	1,017,000
Library books.....	<u>317,000</u>

▪ Financing costs	610,000
LOC upfront, legal, and first annual fees.....	\$112,000
Underwriter’s Discount.....	300,000
Costs of Issuance	198,000
Total Uses of Funds	<u>\$26,195,000</u>

Financing Structure:

- General Obligation of the College
- Letter of credit anticipated through Allied Irish Bank
- 30 year term, final maturity December 2032
- Negotiated Public Offering
- \$12 million Series 2002A Variable Rate (“new money”)
- \$13 million Series 2002B Variable Rate (“refunding”)
- Expected rating: Aa3/VMIG1 (Moody’s), based on Allied Irish Bank

II. FINANCIAL STATEMENTS AND ANALYSIS:

ART CENTER COLLEGE OF DESIGN

Statement of Activities Unrestricted (000's)

	Fiscal Year Ended December 31,			
	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
	(Unaudited)			
Revenues:				
Net tuition and fees	\$ 37,208	\$ 34,985	\$ 33,604	\$ 29,574
Private gifts and grants	5,389	3,470	6,548	8,623
Investment and other income ^(a)	491	446	675	653
Spending policy income ^(b)	857	741	632	453
Auxiliary enterprises	499	436	419	464
Other sources	469	386	974	276
Amounts released from restrictions	1,174	40	-	-
Total revenues	<u>46,087</u>	<u>40,504</u>	<u>42,852</u>	<u>40,043</u>
Expenses:				
Education	31,486	31,404	29,253	30,666
Student services	3,636	3,543	3,520	3,266
Administration	5,002	4,714	5,374	3,907
Advancement (fundraising)	2,220	1,994	1,638	1,585
Auxiliary activities	385	414	476	599
Total expenses	<u>42,729</u>	<u>42,069</u>	<u>40,261</u>	<u>40,023</u>
Increase in unrestricted net assets from operations	3,358	(1,565)	2,591	20
Other changes in net assets:				
Endowment income, net of allocation to operations ^(b)	424	1,026	119	305
Unrealized (depreciation)/appreciation in investments	(1,898)	(2,613)	3,367	1,869
Realized (depreciation)/appreciation in investments	(252)	163	(215)	-
Other expenses	(173)	(135)	(324)	(73)
Increase in unrestricted net assets	<u>1,459</u>	<u>(3,124)</u>	<u>5,538</u>	<u>2,121</u>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>29,906</u>	<u>33,030</u>	<u>27,492</u>	<u>25,372</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u><u>\$ 31,365</u></u>	<u><u>\$ 29,906</u></u>	<u><u>\$ 33,030</u></u>	<u><u>\$ 27,493</u></u>

^(a) Investment and other income represents income earned from the unrestricted investment portfolio.

^(b) Spending policy income represents income earned from the restricted investment portfolio designated to pay for operating expenses. The remainder of this income is added to the unrestricted investment portfolio.

ART CENTER COLLEGE OF DESIGN
Statement of Financial Position (000's)

	As of December 31			
	2001	2000	1999	1998
ASSETS:	(Unaudited)			
Cash and cash equivalents	\$ 2,961	\$ 4,340	\$ 2,538	\$ 1,948
Accounts and notes receivable, net	2,226	2,309	3,076	2,703
Contributions receivable, net	2,357	1,131	-	-
Investments	24,211	28,099	30,064	25,815
Deposit with trustee	1,194	1,194	1,194	1,194
Certificates of participation issuance costs	641	677	713	749
Property, plant, and equipment, net	29,454	24,797	27,285	26,110
Other assets	233	533	206	597
TOTAL ASSETS	\$ 63,277	\$ 63,080	\$ 65,076	\$ 59,116
LIABILITIES AND NET ASSETS:				
Liabilities:				
Accounts payable and accrued liabilities	\$ 2,584	\$ 3,796	\$ 4,141	\$ 3,763
Revolving credit line payable	500	500	-	-
Unearned tuition income	512	201	186	438
Federal student loan funds	753	784	754	726
Capital lease obligations	-	98	197	287
Certificates of participation	12,520	12,905	13,270	13,620
TOTAL LIABILITIES	16,869	18,284	18,548	18,834
Net assets:				
Unrestricted	31,390	29,906	33,030	27,492
Temporarily Restricted	-	1,174	-	-
Permanently Restricted	15,018	13,716	13,498	12,790
TOTAL NET ASSETS	46,408	44,796	46,528	40,282
TOTAL LIABILITIES AND NET ASSETS	\$ 63,277	\$ 63,080	\$ 65,076	\$ 59,116

Financial Ratios:

	Proforma (a)				
	<u>FYE Dec. 31, 2001</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>
Debt service coverage (x)	2.71	3.30	1.67	7.30	8.14
Debt to expendable net assets (x)	0.80	0.42	0.45	0.43	0.54
Expendable net assets to operations (x)		0.70	0.70	0.81	0.69
Margin (%)		3.2%	-7.5%	12.0%	5.0%

(a) Recalculates 2001 unaudited results to include the impact of this proposed financing.

Financial Discussion:

The College has exhibited a strong balance sheet with good liquidity, substantial financial resources and minimal debt.

The College's balance sheet is strong, with total net assets over \$46 million, including over \$27 million in cash and investments.

A sizeable increase in net assets of \$6 million between 1998 and 2001 (a 15% increase) and low debt has led to a debt to expendable net assets ratio of 0.42x.

Debt service coverage has been good, and with the exception of 2000, the College continues to post good operating results.

Debt service coverage has been good in our review period, with a low of 1.67x in 2000. The College reported a loss of \$3.1 million in the year ended December 31, 2000, mostly due to unrealized losses totaling \$2.6 million. Also, fundraising efforts in 2000 were slowed somewhat by the departure of the College's fundraising official.

Due to market fluctuations, the College has experienced unrealized losses in its investment portfolio, which is largely centered in equities, in excess of \$2 million in each of the last two years.

Overall, in our review period, revenues, especially from net tuition, have been strong, while total expenses, particularly education expenses, have been kept in check.

The College maintains a successful general fundraising program as evidenced by over \$5 million in receipts of private gifts, grants, and bequests, and its continued growth in its permanently restricted net assets. Another credit strength of the College is its extended education curriculum which offers undergraduate and graduate classes to approximately 1,200 students, adding to the College's diversified revenue flow.

With the inclusion of this proposed debt, the leverage remains satisfactory and debt service coverage is good.

With the additional debt the College will incur, debt to unrestricted net assets ratio will increase to a modest 0.80x. Projected debt service coverage is 2.71x.

III. STUDENTS, COLLEGE COSTS AND FACULTY STATISTICS:

Application Pool

The following table illustrates application, admissions and new enrollments for the College's undergraduate graduate programs for the current and last four academic years. Combined data for the spring, summer, and fall semesters is shown for each year.

Freshman and Transfer (Combined) *

Year Ended December 31	Number of Apps.	Offered Admission	Selectivity Ratio	New Enrollments
1997	1,105	746	67%	495
1998	1,139	730	64%	504
1999	1,148	758	66%	560
2000	1,097	709	65%	511
2001	1,129	733	65%	569

Graduate Programs *

Year Ended December 31	Number of Apps.	Offered Admission	Selectivity Ratio	New Enrollments
1997	182	86	47%	50
1998	172	82	48%	51
1999	175	59	34%	41
2000	230	69	30%	46
2001	153	74	48%	45

** Headcount and full-time equivalent are identical in the above programs. The College does not allow part-time study for degree programs.*

Enrollments and Degrees

The following table reflects, for the past five academic years, undergraduate and graduate enrollments, as well as the undergraduate and graduate degrees awarded therein. As noted above, "head count" and full-time equivalent figures are equivalent.

Enrollments				Degrees Awarded		
Year Ended December 31	Under- Graduate	Graduate	Total	Under- Graduate	Graduate	Total
1997	3,753	270	4,023	427	39	486
1998	3,606	274	3,880	349	37	386
1999	3,734	262	3,996	393	35	428
2000	3,756	264	4,118	367	31	398
2001	3,878	257	4,135	364	26	390

Tuition and Fees

UNDERGRADUATE TUITION, FEES, ROOM AND BOARD

Year Ended Dec. 31	Undergraduate Tuition and Fees	Room and Board	Undergraduate Total
1997	\$24,420	N/A	\$24,420
1998	\$25,770	N/A	\$25,770
1999	\$26,640	N/A	\$26,640
2000	\$28,335	N/A	\$28,335
2001	\$29,685	N/A	\$29,865

Faculty

FACULTY SUMMARY

Fall Semester	Full-Time Faculty	Full-Time Other	Part-Time	Total
1997	63	13	308	384
1998	65	14	304	383
1999	66	13	323	402
2000	72	15	317	404
2001	70	16	339	425

IV. BACKGROUND:

General:

Founded in 1930, Art Center College of Design is a non-profit, non-sectarian, privately endowed, co-educational institution known for preparing students for careers in the design professions. It offers the Bachelor of Fine Arts degree in Advertising Design, Film, Fine Arts, Graphic Design, Illustration, and Photography, and the Bachelor of Science degree in Environmental Design, Product Design, and Transportation Design. It offers the Master of Arts degree in Art Theory and Criticism, the Master of Fine Arts degree in Film, Fine Arts, Media Design, and Industrial Design.

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 1 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 College is located on a 100-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. The College owns a 17,000 square foot facility in downtown Pasadena and leases an additional 2,800 square feet. The College does not own or operate student housing. The College offers exchange opportunities and joint programs with the nearby California Institute of Technology and Occidental College.

Administration:

Governance: The College is a nonprofit organization governed by a board of trustees. Trustees currently number 15 and 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, human resources, facilities and development.

Accreditation:

The University is fully accredited by the Western Association of Schools and Colleges (WASC). The last accreditation was in 1997, resulting in a reaffirmation of accreditation. The next accreditation is scheduled for 2007. 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:

The University 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.

Competition:

The competing institutions are as follows:

- California College of Arts and Crafts, Oakland and San Francisco, California
- California Institute of Arts, Valencia, California
- Otis Art Institute, Los Angeles, California
- Parsons School of Design, New York, New York
- Pratt Institute, Brooklyn, New York
- Rhode Island School of Design, Providence, Rhode Island
- School of the Art Institute of Chicago, Chicago, Illinois
- School of Visual Arts, New York, New York

V. OUTSTANDING DEBT (\$000):

<u>Issue Name:</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 12/31/01</u> (Unaudited)	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing			
Certificates of Participation, 1994	\$15,000	\$12,520	\$ 0
Proposed			
CEFA, Series 2002A and 2002B			25,000
Totals		<u>\$12,520</u>	<u>\$25,000</u>

VI. LEGAL REVIEW:

Staff has reviewed the Applicant’s responses to the questions contained in the Legal Status portion of the application. No information was disclosed to question the financial viability or legal integrity of this applicant.

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve a Resolution in an amount not to exceed \$25,000,000 for Art Center College of Design, subject to the bonds having at least an A rating by a nationally recognized rating agency, the fiscal 2001 final audit being materially consistent with the financial information presented in this report, and the transaction otherwise meeting the standard bond issuance provisions for “A” rated debt.