

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
EXECUTIVE SUMMARY**

BOND FINANCING PROGRAM

Applicant:	San Francisco Conservatory of Music San Francisco, California San Francisco County	Bond Par Amount:	\$10,000,000
		Loan Term:	25 years
		Date Requested:	February 24, 2000
		Resolution Number:	175
Facility Type:	Private College		
Accreditation:	Western Association of Schools and Colleges		
Project: Bond proceeds will be used to purchase real estate to replace a currently outdated and undersized facility. The Conservatory will further use its internal cash to refund its Series 1993 CEFA bonds.			
Important Note: This project's success depends on the Conservatory being able to raise a significant amount of donations in a short time period to complete various renovations and construction projects on the buildings to be purchased with bond proceeds. An outside consulting firm analyzed the Conservatory's fundraising potential and projected that the Conservatory should be able to raise the required funds. See page 3 of this summary for a more complete discussion.			
Type of Issue:	Public Offering, Weekly Variable Interest Rate		
Credit Enhancement:	Letter of Credit from Union Bank of California / wrapped by STRS Bond Insurance		
Expected Rating:	VMIG1 (Moody's), A1+ (Standard & Poor's), based on STRS short-term rating		
Senior Underwriter:	Sutter Securities Incorporated		
Bond Counsel:	Orrick, Herrington, & Sutcliffe		
Financial Overview: San Francisco Conservatory of Music's income statement has shown consistent net income and good operating margins over our review period. The balance sheet also exhibits positive characteristics of yearly increases in net assets and minimal long-term debt. This financing, however, will substantially increase leverage and will weaken financial status in the short run due to an emphasis on endowment earnings covering debt service costs over the construction period. Notwithstanding, proforma debt service coverage indicates a satisfactory cushion to financially manage this project.			
Sources of Revenue (\$000) - FY 6/30/99:			
(Unrestricted Funds)		Amount	Percent
Tuition and fees		\$5,505	60.8%
Contributions		1,311	14.5%
Investment and endowment income		1,092	12.1%
Net assets released from restrictions		370	4.1%
Other educational revenue		429	4.8%
Net realized gain/unrealized gain on sale of investments		185	2.0%
Fundraising events		151	1.7%
Total unrestricted revenue		<u>\$9,043</u>	<u>100.0%</u>
Sources of Funds:		Uses of Funds:	
Par amount of CEFA bonds	\$10,000,000	Purchase property/closing costs	\$ 8,740,000
Borrower funds (dedicated to refunding the 1993 CEFA bonds.)	1,258,000	Refund 1993 CEFA bonds	1,258,000
		Reimburse prelim. project fees	289,000
		Debt service reserve fund	651,000
		Financing costs	320,000
Subtotal	<u>11,258,000</u>	Subtotal	<u>11,258,000</u>
Post Bond Issue:			
Donor funds	43,900,000	Property renovation/construction costs	43,900,000
Borrower Funds	4,000,000	Purchase Equipment	4,000,000
Total Sources	<u>\$59,158,000</u>	Total Uses	<u>\$59,158,000</u>
Staff Recommendation: Staff recommends the Authority approve a resolution for an amount not to exceed \$10,000,000 for the San Francisco Conservatory of Music, subject to the bonds being rated at least "A" by a nationally recognized rating agency.			

STAFF SUMMARY AND RECOMMENDATION
San Francisco Conservatory of Music (The Conservatory)

February 24, 2000
Resolution Number: 175

I. PURPOSE OF FINANCING.

The San Francisco Conservatory of Music (the "Conservatory") has been seeking to complete a strategic relocation to San Francisco's Civic Center area for the past several years. Recently it identified a property in this area and entered into a purchase contract. This new location will enable the Conservatory to replace its outdated and undersized facilities and provide for future student enrollment growth in the heart of the cultural life of San Francisco. Moreover, the Conservatory's proposed pay-off of CEFA debt will remove a restrictive financial covenant, enabling the Conservatory to complete this transaction.

Project Costs:

<i>Purchase property/closing costs</i>	\$8,940,000
<i>Less: Good Faith Deposit (see prelim. fees, page 2)</i>	200,000
<i>Remaining Balance</i>	\$8,740,000

In December 1999, the Conservatory paid a \$200,000 "good faith" deposit and entered into a three-month escrow to purchase the property described above. It is ideally located, within several blocks of the San Francisco Symphony, Opera, and Ballet, and is one block from BART, Golden Gate Transit, and other transit options.

The Conservatory has agreed to a purchase of \$8.9 million, with closing costs estimated at \$40,000. A preliminary "Opinion of Value" indicates an "as is" value in the range of \$9.1 to \$9.5 million. The \$10 million bond size, (which includes issuance and reserve costs) results in a 1.10 loan to value ratio. However, as described below, the Conservatory intends to spend roughly \$44 million to enhance the property, which should significantly increase its value.

<i>Refund 1993 CEFA Bonds</i>	1,258,000
Refund 1993 Bond Principal	1,245,000
Redemption Premium	<u>13,000</u>

The net present value savings of this refunding are minimal. However, the refunding accomplishes a greater purpose of removing a covenant on existing bonds which limits draws of endowment earnings to 6% per year. This new transaction, on the other hand, will allow endowment earnings draws sufficient to cover debt service on the bonds, which is an integral part of making this financing feasible (see "Financial Discussion" page 6 of the summary).

Reimbursement of preliminary project fees **289,000**
 Includes the \$200,000 good faith deposit on the property purchase and about \$89,000 in architectural costs, due diligence reports, ALTA title policy survey fees and environmental study expenses.

Debt Service Reserve Fund **651,000**

Financing Costs **\$320,000**

Costs of Issuance.....	\$200,000
Underwriter's Discount.....	40,000
Bank Letter of Credit fee.....	<u>80,000</u>

Post Bond Issuance Project Costs:

Property Renovation / Construction Costs **43,900,000**

The property to be purchased with bond proceeds currently consists of 2 buildings on Oak Street on a site area of 17,700 square feet. These buildings require extensive renovation and demolition/reconstruction work to accommodate the Conservatory's specific space needs.

One of the two buildings is in reasonably good condition and the Conservatory intends to renovate this building at an estimated total cost of \$18 million. This particular building is considered an historical landmark. As a result, it requires a fairly detailed and sensitive permitting and renovation process which the Conservatory must manage to ensure timely completion of this project.

The other building however, is in very poor condition and the Conservatory intends on demolishing it, per a recommendation obtained by its consultant team. This building is of no historical significance, and the consultant's report notes that the building is deteriorating and would not allow additional floors to be built on top, as needed per the Conservatory's space requirements. The estimated total costs of demolition and reconstruction of this building is \$25 million.

Upon completion of the renovation and construction projects, the new buildings will contain approximately 70,000 square feet, or more than double the square footage of the existing 32,000 square foot facility. The Conservatory estimates that the additional space will enable it to increase its student FTE from the 240 level to as high as the 320 level. The various new amenities of the new facility - such as a concert hall, additional practice

rooms and the ability to expand course offerings - will greatly assist the Conservatory in its efforts to attract top students and to grow the student body. The Conservatory anticipates a four-year window to complete the project, including a roughly 18-24 month planning and permitting phase. Renovation is expected to begin in the Spring of 2002 with expected completion in the Spring or Summer of 2004. The Conservatory intends on continuing operations at its current location over the construction period. Subsequent to moving into the renovated buildings, the Conservatory plans on selling its current facility, which it estimates has a market value of roughly \$5 million.

Important Note: Capital Campaign Important To The Success of this Project:

The Conservatory intends on obtaining the total \$43.9 million cost of this renovation / construction project through donated funds. To date, approximately \$5 million has been raised in grants and pledges. The Conservatory has identified an additional \$10 million pledge and is currently negotiating with this donor, who also is on the Conservatory's Board. Approximately \$29 million of additional money is needed to complete this phase of the project.

To determine its ability to raise this kind of money, the Conservatory hired an independent consulting firm to conduct a fundraising analysis. The firm completed an analysis in August 1999 (updated February 2000) of the Conservatory's prospect database using a screening process developed to identify hidden philanthropic potential. The company's computer model predicted some 7,158 individual prospects capable of gifts in the \$10,000 range and above. The analysis further identified other major donors which "represent almost unlimited philanthropic potential and with whom the Conservatory has maintained close ties." In short, the analysis estimates that the Conservatory should be able to generate the \$29 million (if not more) required to complete the project. Due to the importance of this capital campaign, the Conservatory intends on hiring 5 additional fundraising staff.

Contingency Plan:

As noted above, the Conservatory estimates "ground breaking" to occur in the Spring of 2002. During the first quarter of 2002, the Conservatory intends to review the progress of the capital campaign and, in consultation with its fundraising consultant, determine the likelihood of the Conservatory's completing the campaign at the \$44 million goal. At that time, if the Conservatory believes that it will complete the campaign in the \$39¹ - \$44 million range, it will continue with the project on schedule.

¹ The Conservatory has identified (in consultation with its architects and cost estimator) \$5 million of possible cost reductions in the project. Most of these reductions are in the areas of finishes, equipment, facade treatments, etc.

If the Conservatory believes during the first quarter of 2002, that there is a strong possibility it will not reach a minimum of \$39 million, it would postpone "breaking ground" for one year. At the end of one year, it would again review its progress and the likelihood of reaching its goal. If at that time, it felt that it could not reach its goal, the Conservatory could sell the Oak Street properties and retire the outstanding debt.

***Purchase Equipment*..... 4,000,000**

Upon completion of the renovation and new construction projects, the Conservatory intends to purchase equipment for its new buildings, including major items such as audio visual equipment and security equipment.

Total Project Cost \$59,158,000

Financing Structure:

- Variable rate set every 7 days,
- 25 year maturity.
- Public Offering.
- Letter of Credit from Union Bank of California with a 5-year term.
- Letter of credit wrapped by STRS Bond Insurance to provide a VMIG1/A1+ short-term rating by Moody's/Standard and Poor's.
- Debt service reserve account, funded with bond proceeds.

(Financial Statements on the following pages)

II. FINANCIAL STATEMENTS AND ANALYSIS

San Francisco Conservatory of Music Statement of Activities (000's) (Unrestricted Funds)

	Period Ending June 30,		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
SUPPORT AND REVENUES:			
Tuition and Fees	\$ 5,505	\$ 5,006	\$ 4,851
Contributions/Fundraising events	1,462	1,716	1,369
Other Educational revenue	334	312	303
Auxillary services	95	90	94
Investment and endowment income	1,092	869	633
Net realized/unrealized on sale of investments	185	605	619
Net assets released from restrictions	370	141	196
Total Support and Revenue	<u>9,043</u>	<u>8,739</u>	<u>8,065</u>
EXPENSES:			
Program Services:			
Instruction and student services	4,958	4,552	4,597
Scholarships	1,328	1,213	1,099
Auxiliary enterprises/public programs	146	166	169
Total Program Services	<u>6,432</u>	<u>5,931</u>	<u>5,865</u>
Fund-Raising	509	444	452
General Management and Administration	1,498	1,379	1,250
Total Expenses	<u>8,439</u>	<u>7,754</u>	<u>7,567</u>
Increase in unrestricted net assets	604	985	498
Cumulative effect on change in accounting	-	-	823
Unrestricted net assets - beginning of the year	4,784	3,799	2,478
Unrestricted net assets - end of the year	<u>\$ 5,388</u>	<u>\$ 4,784</u>	<u>\$ 3,799</u>

**San Francisco Conservatory of Music
Statement of Financial Position (000s)**

	As of June 30,		
	1999	1998	1997
ASSETS:			
Cash and cash equivalents	\$ 2,714	\$ 2,547	\$ 2,417
Investments	25,494	23,677	16,270
Accounts/Notes receivable	979	899	1,014
Contributions/Grants/Trusts/Interest Rec.	1,280	898	1,169
Other assets	108	168	169
Property and Equipment, Net	3,802	3,662	3,318
Total assets	\$ 34,377	\$ 31,851	\$ 24,357
 LIABILITIES AND NET ASSETS:			
Accounts payable and other liabilities	\$ 217	\$ 197	\$ 299
Deposits and deferred income	181	193	197
Government and advances for loan program	563	523	523
Bonds payable	1,365	1,475	1,580
Total Liabilities	2,326	2,388	2,599
 NET ASSETS:			
Unrestricted	5,388	4,784	3,799
Temporarily restricted	6,335	5,390	3,655
Permanently restricted	20,328	19,289	14,304
Total Net Assets	32,051	29,463	21,758
 TOTAL LIABILITES AND NET ASSETS	 \$ 34,377	 \$ 31,851	 \$ 24,357

Financial Ratios:

	Proforma YE June 30, 1999	1999	1998	1997
Debt Service Coverage (current operations)	1.28*	4.28	6.20	4.01
Debt Service Coverage (w/ increased endow. earnings draw)	2.28*			
Expendable net assets/debt	1.17	8.59	6.90	4.72
Expendable net assets/operations		1.39	1.31	.99
Operating margin		6.68%	11.27%	6.17%

* The above two scenarios show proforma coverage based on current operations (1.28 times) and then proforma coverage based on the proposed increased endowment earnings draw (2.28 times).

Financial Discussion:

San Francisco Conservatory of Music's income statement has shown consistent net income and good operating margins over our review period.

The Conservatory has shown consistent positive net income over our three-year review period. It has been able to achieve good earnings as a result of maintaining stable student enrollment, moderate tuition increases (ranging from 6%-10%), combined with minimal increases in program and administrative expenses.

The balance sheet also exhibits positive characteristics of yearly increases in net assets and minimal long-term debt.

The Conservatory's balance sheet also demonstrated positive characteristics over our review period. For example, net assets grew from approximately \$22 million to over \$33 million, or by 50% from 1997 to 1999. Approximately \$6 million of this increase came from contributions and roughly \$5 million came from investment returns and operating profits. Another positive characteristic is the minimal amount of long-term debt shown. Currently, only \$1.245 million is outstanding, which the Conservatory intends to retire with its own funds at closing.

This financing, however, will substantially increase leverage and will weaken financial status in the short run due to an emphasis on endowment earnings covering debt service costs over the construction period. Notwithstanding, proforma debt service coverage indicates a satisfactory cushion to financially manage this project.

With this proposed financing, debt will increase close to eightfold, resulting in the expendable net assets to debt ratio declining from its current high of 8.59 to a marginal 1.17. In addition, the Conservatory's ability to cover debt service payments from operating funds will significantly diminish. Based on available operating funds, the debt service coverage ratio will decline from the current 4.28 times to a proforma 1.28 times.

Given the minimal operational capability to service the proposed new debt, the Conservatory will covenant as part of this proposed financing to increase the size of its yearly draw of endowment earnings to pay debt service over the estimated four-year construction period. Currently, the Conservatory annually draws from its endowment 5.5% of the endowment three-year average balance, or about \$1.4 million. The Conservatory expects to increase this amount up to 8% to help cover the annual debt service of approximately \$744,000.

Greater reliance on endowment earnings weakens financial strength. However, this additional commitment of the Conservatory to draw on its endowment adds significant cushion to debt service coverage for this transaction, increasing it to approximately 2.28 times. Moreover, the 5-year historical return on the endowment has averaged approximately 15%, with the current year's return averaging about 8%. Given expected endowment earnings returns of at least 8%, combined with expected annual endowment contributions, the Conservatory is reasonably confident that it will still be able to minimally grow its endowment even with the increased draw amount.

III. STUDENTS, CONSERVATORY COSTS, AND FACULTY STATISTICS.

Applications and New Enrollments

Application Pool

Freshman*				Transfer*		
Fall Semester	Number of Apps.	Offered Admission	New Enrollments	Number of Apps.	Offered Admission	New Enrollment
1999	119	61	20	80	36	24
1998	134	70	24	106	43	27
1997	153	69	25	121	46	26
1996	113	64	29	106	61	33
1995	111	65	28	79	37	20

*Headcount, not full-time equivalent

Freshman and Transfer (Combined)*

Fall Semester	Number of Apps	Offered Admission	Selectivity Ratio	New Enrollments
1999	199	97	49%	44
1998	240	113	47%	51
1997	274	115	42%	51
1996	219	125	57%	62
1995	190	102	54%	48

*Headcount, not full-time equivalent

Graduate Programs*

Fall Semester	Number of Apps	Offered Admission	Selectivity Ratio	New Enrollments
1999	251	117	47%	55
1998	269	123	46%	60
1997	272	116	43%	51
1996	248	132	53%	48
1995	226	113	50%	51

*Headcount, not full-time equivalent

Enrollments and Degrees

Academic Year	Enrollments			Degrees Awarded	
	Undergrad. FTE	Graduate FTE	Total FTE	Bachelor	Graduate
1999-2000	134	106	240 *	Not Available	
1998-99	155	104	259	37	49
1997-98	153	94	247	34	51
1996-97	158	102	260	39	47
1995-96	144	100	244	30	63
1994-95	143	119	262	45	54

* The drop in FTE enrollment is due to several resolvable short-term issues according to the College. First, the Conservatory lost 4 part-time piano faculty over the past several years due to illness and death. Secondly, a newly hired cello faculty member left at the end of last year to accept another position. The Conservatory has hired a new full-time cello faculty member and is in the process of appointing a new full-time piano faculty member. The College anticipates that these new hires will bring its enrollment in these two areas back to its traditional levels in the short-term. In addition, the College expects FTE student enrollment to reach the 280 level by the time it is in the new facility.

Tuition and Fees:

UNDERGRADUATE TUITION, FEES, ROOM AND BOARD

Academic Year	Undergraduate Tuition and Fees	Room and Board	Undergraduate Total
1999-2000	\$18,670	N/A	\$18,670
1998-99	\$17,670	N/A	\$17,670
1997-98	\$16,550	N/A	\$16,550
1996-97	\$15,050	N/A	\$15,050
1995-96	\$14,750	N/A	\$14,750

Faculty:

FACULTY SUMMARY (Full-Time Equivalent)

Academic Year	Tenured Full-time*	Other Full-time	Part Time FTE	Total FTE
1999-2000	N/A	24	16	40
1998-99	N/A	24	15.25	39.25
1997-98	N/A	26	8.6	34.6
1996-97	N/A	28	8	36
1995-96	N/A	25	8.8	33.8

*The Conservatory does not have a tenure system

IV. BACKGROUND

General:

The San Francisco Conservatory of Music has been preparing musicians for the world's concert stages and opera houses since its founding in 1917. What started as a small piano school has grown into an internationally acclaimed conservatory and the only fully independent Conservatory of music west of Ohio. Alumni include world renowned violinists Isaac Stern and Yehudi Menuhin. Today, close to fifty alumni are members of the San Francisco Symphony, the San Francisco Opera and the San Francisco Ballet. Conservatory alumni are represented among more than twenty major symphony orchestras nationwide including the New York Philharmonic, the Chicago Symphony, the Boston Symphony and the Los Angeles Philharmonic.

This year, approximately 250 students (representing 240 FTE) enrolled from 37 states and 21 countries to study with the faculty that includes more than two dozen members of the San Francisco Symphony, Opera and Ballet orchestras. More than 500 students, ages 4-18, receive instruction after school, on weekends and during summer in the Preparatory Division, and some 600 adults participate in evening educational classes as well as private instrument and vocal instruction through the Adult Extension Division.

The Conservatory entered into a great period of growth in 1966 under the direction of past President Milton Salkind. During his 24-year tenure, collegiate enrollment grew sixfold from 42 to over 250 students. Salkind developed many innovative programs, many of which became models for other conservatories, such as the Community Service Program-the first comprehensive community outreach program among U.S. conservatories. The Conservatory was also the first to add Ethnomusicology and Asian music to its curriculum, the first to offer a degree in classical guitar, and the first to offer a Master's Degree in Chamber Music. Today the Conservatory presents over 365 public concerts annually, most of them free.

Administration:

The Conservatory is governed by a self-perpetuating Board of Trustees, comprised of 45 members serving three-year terms. There are presently 8 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. The Board normally meets four times a year. There is an Executive Committee of the Board of Trustees which meets at least twice a year and consists of the Chair, the Vice-Chairs, President, Secretary, Treasurer, and any other Board members appointed by the Chair.

Accreditation and Affiliations:

The San Francisco Conservatory of Music is accredited by the Western Association of Schools and Colleges (WASC). The original accreditation was received in 1960, while the latest accreditation was received in 1994.

Competition:

The Conservatory competes nationally and internationally for talented musicians. However, it enjoys the status as the only fully independent Conservatory of music west of Ohio. As demonstrated by its strong selectivity ratio, the Conservatory accepts slightly less than half the students who apply.

V. OUTSTANDING DEBT.

As of December 31, 1999, the Conservatory had \$1.245 million of outstanding Authority debt. With this financing, the outstanding amount will increase to \$10 million. The Conservatory does not maintain any other additional long-term debt.

<u>Issue Name:</u>	<u>Original Amount</u>	<u>Amount Outstanding As of 12/31/99</u>	<u>Estimated Amount Outstanding after Proposed Financing</u>
Existing			
<i>CEFA Revenue bonds, Series 1993</i>	\$1,865,000	\$1,245,000	\$0
Proposed			
<i>CEFA Revenue bonds, Series 2000</i>			10,000,000
Totals		<u>\$1,245,000</u>	<u>\$10,000,000</u>

VI. STAFF RECOMMENDATION. Staff recommends the Authority approve a resolution for an amount not to exceed \$10,000,000 for the San Francisco Conservatory of Music, subject to the bonds being rated at least "A" by a nationally recognized rating agency.