

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY  
POOLED LOAN FINANCING PROGRAM-SERIES C**

**EXECUTIVE SUMMARY**

|  |                     |                                       |                       |
|--|---------------------|---------------------------------------|-----------------------|
| <b>Applicant:</b> California College of Arts and Crafts ("CCAC")<br>Oakland, California<br>Alameda County  |                     | <b>Bond Par Amount:</b> \$11,370,000  |                       |
|  |                     | <b>Loan Term:</b> 25 years            |                       |
|  |                     | <b>Date Requested:</b> April 27, 2000 |                       |
|  |                     | <b>Resolution Number:</b> 178         |                       |
| <b>Facility Type:</b> Private College  |                     |                                       |                       |
| <b>Accreditation:</b> Western Association of Schools and Colleges, National Association of Schools of Art and Design, and the National Architectural Accrediting Board   |                     |                                       |                       |
| <b>Project:</b> Bond proceeds will be used to construct and furnish student housing at two locations near the Oakland campus to mitigate a serious housing shortage.   |                     |                                       |                       |
| <b>Type of Issue:</b> Public Offering, Fixed interest rate   |                     |                                       |                       |
| <b>Credit Enhancement:</b> None  |                     |                                       |                       |
| <b>Expected Pool Rating:</b> Baa3 (Moody's)  |                     |                                       |                       |
| <b>Senior Underwriter:</b> Prager, McCarthy & Sealy LLC  |                     |                                       |                       |
| <b>Bond Counsel:</b> Arter & Hadden LLP  |                     |                                       |                       |
| <b>Financial Overview:</b> CCAC posted positive growth in net assets the past three years due to aggressive fundraising and tuition increases combined with stable enrollment. This financing will result in significant leverage and a minimal but satisfactory 1.41 debt service coverage ratio. Expected rents from the proposed housing project will support much of the new debt service. Nonetheless, ongoing profitability is dependent on CCAC's ability to continue to supplement operations through fundraising, fee increases and consistent enrollment demand. |                     |                                       |                       |
| <b>Sources of Revenue (\$000) - FY 4/30/99:</b>  |                     |                                       |                       |
| <b>(Unrestricted Funds)</b>  |                     | <b><u>Amount</u></b>                  | <b><u>Percent</u></b> |
| Tuition and fees   |                     | \$15,419                              | 76%                   |
| Investment earnings  |                     | 1,834                                 | 9%                    |
| Private gifts and bequests   |                     | 224                                   | 1%                    |
| Other  |                     | 359                                   | 2%                    |
| Net assets released from restrictions  |                     | <u>2,334</u>                          | <u>12%</u>            |
| Total unrestricted revenue   |                     | <u>\$20,170</u>                       | <u>100%</u>           |
| <b>Sources of Funds:</b>   |                     | <b>Uses of Funds:</b>                 |                       |
| Par amount of CEFA bonds   | \$11,370,000        | Complete 2 student housing projects   | 10,050,000            |
| Original issue discount  | (227,400)           | Debt service reserve                  | 886,820               |
|  |                     | Financing costs                       | <u>205,780</u>        |
| Total Sources: .....   | <u>\$11,142,600</u> | Subtotal .....                        | <u>\$11,142,600</u>   |
| <b>Staff Recommendation:</b> Staff recommends the Authority approve a resolution for an amount not to exceed \$11,370,000 for the California College of Arts and Crafts, subject to the Series C Pool being rated at least "Baa3" by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section, and meeting the standard bond issuance provisions for Baa rated debt.  |                     |                                       |                       |

**STAFF SUMMARY AND RECOMMENDATION**  
**California College of Arts and Crafts**

April 27, 2000  
Resolution Number: 178

**I. PURPOSE OF FINANCING.**

CCAC is finalizing plans for student housing projects located near its Oakland campus to enhance the college's ability to attract and retain students. Management notes that applications have been up, but CCAC has had problems increasing enrollment due to the high cost of housing in both Oakland and San Francisco, the locations of its two campus sites. Although the new housing will be located near the Oakland campus, this housing will be available to serve students of both campuses via a bus that shuttles students four times a day. Accordingly, management believes that the addition of the proposed dorm beds are strategically vital to its recruitment and retention efforts.

*Complete Two Student Housing Projects* ..... **\$10,050,000**

Bond proceeds will be used to complete two student housing projects in Oakland, California. These projects will result in an additional 211 beds and are described as follows:

*Broadway Street Student Housing* ..... **\$7,475,000**  
Construction ..... \$7,158,000  
Furniture, fixtures & equipment..... 250,000  
Land improvements..... 67,000

CCAC owns property located at 5276 Broadway Street in Oakland, California. The college intends to construct a 126 bed student housing facility and 41 underground parking spaces on the site. The building is expected to be 25,340 square feet, including 1,970 square feet of administrative space, plus 21,540 square feet of underground parking.

A construction contract has not been executed. Pricing of the project is currently underway. Construction is expected to begin in the summer of 2000 and be completed fall 2001. The permits for this project are currently being reviewed by the City of Oakland. The appraisal for the property is being obtained.

*Webster Student Housing* ..... **\$2,575,000**  
Purchase ..... \$1,300,000  
Renovations..... 1,145,000  
Furniture, fixtures & equipment..... 130,000

The college is in the process of purchasing the top two floors of a five-story building owned by the YWCA. The YWCA has chosen not to complete the top two floors, originally intended as a women's dormitory, but to sell them partially finished. The college intends to purchase the two floors and to complete the renovation to create an 85 bed dormitory for students.

The purchase agreement is currently being drafted. An appraisal for this property is not being developed. The Authority will be taking a deed of trust on CCAC property of sufficient value to collateralize the proposed bond issue. CCAC received an appraisal in early April 2000 valuing its San Francisco campus buildings in excess of \$50 million.

Under the ownership of the YWCA, the permit for this project has already been approved by the City of Oakland. The college is proposing minor modifications to the original drawings. The city has indicated that the permit for these minor modifications will be expedited. Modifications are currently being drafted. Construction is expected to begin in early summer 2000 and be completed fall 2000.

|                                   |         |                            |
|-----------------------------------|---------|----------------------------|
| <b>Debt Service Reserve</b> ..... |         | <b>\$886,820</b>           |
| <b>Financing Costs</b> .....      |         | <b>\$205,780</b>           |
| Cost of Issuance .....            | 97,797  |                            |
| Underwriter Discount .....        | 104,102 |                            |
| Contingency .....                 | 3,881   |                            |
|                                   |         | <hr/>                      |
| <b><i>TOTAL USES OF FUNDS</i></b> |         | <b><u>\$11,142,600</u></b> |

**Financing Structure:**

- Public Offering, Fixed Rate.
- 25 year maturity.
- General Obligation and Gross Revenue Pledge.
- Deed of Trust to secure property.
- Debt Service Reserve Fund.
- Financial integrity covenants regarding maintenance of liquidity and debt service coverage.

## II. FINANCIAL STATEMENTS AND ANALYSIS

### California College of Arts and Crafts

#### Statement of Activities Unrestricted (000's)

|  | Fiscal Year Ended April 30, |                  |                  |
|--|-----------------------------|------------------|------------------|
|  | 1999                        | 1998             | 1997             |
| <b>Revenue, gains, and other support</b>   |                             |                  |                  |
| Net tuition and fees                       | \$ 15,419                   | \$ 13,951        | \$ 12,544        |
| Net realized and unrealized gains          | 613                         | 682              | 647              |
| Interest income                            | 1,221                       | 115              | 350              |
| Private gifts and bequests                 | 224                         | 214              | 327              |
| Other sources                              | 359                         | 340              | 746              |
| Total revenue                              | <u>17,836</u>               | <u>15,302</u>    | <u>14,614</u>    |
| Net assets released from restrictions      | <u>2,334</u>                | <u>3,282</u>     | <u>4,453</u>     |
| Net revenue and support                    | <u>20,170</u>               | <u>18,584</u>    | <u>19,067</u>    |
| <b>Expenses</b>                            |                             |                  |                  |
| Instruction                                | 9,037                       | 8,032            | 7,804            |
| Instructional services                     | 2,305                       | 1,606            | 1,433            |
| Student services                           | 2,044                       | 1,972            | 1,911            |
| Administrative and general support         | 2,499                       | 2,144            | 1,770            |
| Interest expense                           | 1,294                       | 503              | 446              |
| Marketing and fundraising                  | 1,554                       | 1,040            | 1,272            |
| Other                                      | 284                         | 614              | 726              |
| Total expenses                             | <u>19,017</u>               | <u>15,911</u>    | <u>15,362</u>    |
| <b>Increase in unrestricted net assets</b> | <b>1,153</b>                | <b>2,673</b>     | <b>3,705</b>     |
| Beginning unrestricted net assets          | 13,249                      | 12,176           | 8,471            |
| Reclassification to restricted funds       |                             | (1,600)          |                  |
| Ending unrestricted net assets             | <u>\$ 14,402</u>            | <u>\$ 13,249</u> | <u>\$ 12,176</u> |

**California College of Arts and Crafts**  
**Statement of Financial Condition (000's)**

|  | As of April 30   |                  |                  |
|--|------------------|------------------|------------------|
|  | 1999             | 1998             | 1997             |
| <b>ASSETS:</b>                           |                  |                  |                  |
| Current assets:                          |                  |                  |                  |
| Cash and cash equivalents                | \$ 1,756         | \$ 2,191         | \$ 1,163         |
| Restricted cash                          | 3,706            | 55               | 38               |
| Current portion of pledges receivable    | 2,728            | 3,399            | 666              |
| Accounts receivable                      | 395              | 218              | 212              |
| Investments, short term                  | 572              | 627              | 275              |
| Prepays and other assets                 | 460              | 476              | 311              |
| Total current assets                     | 9,617            | 6,966            | 2,665            |
| Property and equipment, net              | 27,731           | 18,248           | 16,441           |
| Investments, long-term                   | 14,139           | 8,227            | 6,631            |
| Pledges receivable, less current portion | 1,054            | 2,502            | 2,185            |
| Notes receivable                         | 1,244            | 1,112            | 1,152            |
| Other assets                             | 1,391            | 1,153            | 984              |
| <b>TOTAL ASSETS</b>                      | <b>\$ 55,176</b> | <b>\$ 38,208</b> | <b>\$ 30,058</b> |
| <b>LIABILITIES AND NET ASSETS:</b>       |                  |                  |                  |
| Current liabilities:                     |                  |                  |                  |
| Accounts payable                         | \$ 3,269         | \$ 2,437         | \$ 1,852         |
| Current portion of long-term debt        | 290              | 280              | 265              |
| Other                                    | 872              | 409              | 417              |
| Total current liabilities                | 4,431            | 3,126            | 2,534            |
| Bonds payable                            | 20,810           | 7,901            | 8,172            |
| Other long-term debt                     | 1,038            | 997              | 1,027            |
| Total liabilities                        | 26,279           | 12,024           | 11,733           |
| Net assets:                              |                  |                  |                  |
| Unrestricted                             | 14,402           | 13,249           | 12,176           |
| Temporarily restricted                   | 6,768            | 9,540            | 3,023            |
| Permanently Restricted                   | 7,727            | 3,395            | 3,126            |
| Total net assets                         | 28,897           | 26,184           | 18,325           |
| Total liabilities and net assets         | <b>\$ 55,176</b> | <b>\$ 38,208</b> | <b>\$ 30,058</b> |

**Financial Ratios:**

|                                  | <b>Proforma</b>           |             |             |             |
|----------------------------------|---------------------------|-------------|-------------|-------------|
|                                  | <b>FYE April 30, 1999</b> | <b>1999</b> | <b>1998</b> | <b>1997</b> |
| Debt Service Coverage            | 1.41                      | 2.65        | 3.48        | 6.15        |
| Expendable net assets/debt       | 0.64                      | 0.96        | 2.48        | 1.61        |
| Expendable net assets/operations |                           | 1.11        | 1.43        | 0.99        |
| Margin                           |                           | 5.72%       | 14.38%      | 19.43%      |

## **Financial Discussion:**

**CCAC posted positive net income in the past three years, although the level of profitability has declined each year.**

CCAC has experienced a \$10 million (60%) increase in net assets since 1997, largely due to a three year fundraising campaign that ended in April 1999. The resulting increased endowment levels have further led to enhanced investment earnings, which have contributed to the positive financial results of the past few years.

Additionally, tuition increases have become more aggressive in the last three years, averaging \$1,100 per year, as compared to prior increases of approximately \$600 per year. The college has been able to raise its tuition and maintain enrollment given stable demand for its design programs.

While fiscal 1999's profit margin of 5.72% is considered strong, net income declined from \$3.7 million in 1997 to \$1.2 million in 1999, or by 68%. A major factor in this decline has been the added expense of instructional staff hired in response to WASC-recommended faculty increases for the School of Design and for language instruction. Another significant expense was a planned change to salary structures which resulted in an approximate 3% salary increase for faculty and administrative staff. Management does not anticipate any further material salary increases or hirings in the near future.

**Ongoing profitability is dependent on CCAC's ability to continue to supplement operations through fundraising, fee increases and consistent enrollment demand, while maintaining control over expenses.**

CCAC received gifts and grants of \$6.6 million in 1998, a lesser \$1.8 million in 1999 and it is projecting an even smaller amount for fiscal 2000 as its 3 year fundraising campaign ended in April 1999. This is of some concern because CCAC has historically relied on donations to supplement its operations. Management realizes this and has recently expanded its fundraising efforts to focus on alumni giving in addition to its traditional reliance on Trustee giving.

Tuition revenue is expected to grow as the college implements planned tuition increases over the next few years. CCAC historically has been able to maintain its enrollment as it raised tuition, which is a strong credit factor and important to positive operations. CCAC enjoys consistent demand, primarily from transfers within the community college system. CCAC further maintains a stable selectivity ratio near 70% which – notwithstanding capacity constraints - translates into significant room to increase enrollment through allowing additional admissions. The college's good matriculation rate (50+%) is also a strong indicator of desirability and weighs in favor of CCAC's ability to enhance revenues through tuition increases.

With the recent completion of its second San Francisco campus building, CCAC is launching three new graduate programs in the Fall of 2000. Management projects these programs will attract an additional 200 students by 2003, increasing enrollment by more than 15%.

**This financing will result in significant leverage and a minimal but satisfactory 1.41 debt service coverage ratio. Expected rents from the proposed housing project are expected to support much of the new debt service.**

The college's debt will increase to \$32 million and will result in significant leverage with expendable resources providing a minimal 64% debt cushion. The debt service coverage ratio will also decline from 2.65x to a lesser, but satisfactory proforma 1.41x. The College anticipates servicing about 90% of the new debt's annual payment with rent revenue estimated at \$700,000 per year. This still leaves an additional \$100,000 per year to be covered from other sources.

### III. STUDENTS, COLLEGE COSTS, AND FACULTY STATISTICS.

#### Applications and New Enrollments

##### Freshman Applicant Pool

| <u>Academic Year</u> | <u>Applications</u> | <u>Acceptances</u> | <u>Matriculations</u> | <u>Selectivity Ratio</u> |
|----------------------|---------------------|--------------------|-----------------------|--------------------------|
| 1994-95              | 623                 | 451                | 234                   | 72.4%                    |
| 1995-96              | 683                 | 501                | 265                   | 73.4%                    |
| 1996-97              | 715                 | 522                | 263                   | 73.0%                    |
| 1997-98              | 756                 | 524                | 270                   | 69.3%                    |
| 1998-99              | 818                 | 601                | 310                   | 73.4%                    |
| 1999-00              | 794                 | 576                | 268                   | 72.5%                    |

##### Enrollments and Degrees

| <u>Academic Year</u> | <u>Undergraduate Headcount</u> | <u>Bachelors Degrees</u> | <u>Graduate Headcount</u> | <u>Masters Degrees</u> |
|----------------------|--------------------------------|--------------------------|---------------------------|------------------------|
| 1994-95              | 1,206                          | 188                      | 88                        | 34                     |
| 1995-96              | 1,169                          | 177                      | 77                        | 32                     |
| 1996-97              | 1,181                          | 190                      | 77                        | 30                     |
| 1997-98              | 1,233                          | 130                      | 87                        | 30                     |
| 1998-99              | 1,143                          | 177                      | 78                        | 36                     |
| 1999-00              | 1,212                          | 151                      | 69                        | 22                     |

##### Tuition and Fees:

| <u>Academic Year</u> | <u>Tuition &amp; Fees</u> | <u>Room Charges</u> |
|----------------------|---------------------------|---------------------|
| 1994-95              | \$13,860                  | \$3,500             |
| 1995-96              | \$14,400                  | \$3,500             |
| 1996-97              | \$15,050                  | \$3,500             |
| 1997-98              | \$15,950                  | \$3,500             |
| 1998-99              | \$17,168                  | \$3,500             |
| 1999-00              | \$18,358                  | \$4,000             |



**Faculty:**

| <u>Academic Year</u> | <u>Full Time</u> | <u>Part Time</u> | <u>FTE Total</u> | <u>Tenured</u> |
|----------------------|------------------|------------------|------------------|----------------|
| 1994-95              | 35               | 228              | 103              | 48             |
| 1995-96              | 32               | 225              | 101              | 50             |
| 1996-97              | 31               | 224              | 101              | 53             |
| 1997-98              | 35               | 227              | 108              | 54             |
| 1998-99              | 34               | 267              | 116              | 54             |
| 1999-00              | 36               | 281              | 126              | 55             |

**IV. BACKGROUND**

The California College of Arts and Crafts was founded in 1907. CCAC is located on two campuses, one in Oakland and the other in San Francisco.

The Oakland campus houses the Fine Arts Programs and is comprised of 14 buildings totaling 122,000 square feet on 4 acres. The campus primarily houses the Fine Arts programs and provides housing for 56 students.

The San Francisco campus primarily houses the Architecture and Design programs. The campus comprises two attached buildings, including a 60,000 square foot administrative building, a library, a lecture hall, classrooms, and studio space, and the 92,000 square foot academic building, designed to provide classrooms, shops, individual student studio space, and an exhibition gallery.

CCAC offers 15 undergraduate majors leading to a Bachelor of Fine Arts degree and a five year Bachelor of Architecture degree. The College also offers a Master of Fine Arts degree. Three additional Masters in Fine Arts programs are scheduled to begin in the Fall of 2000. The College is divided into three schools: the School of Fine Arts, the School of Design, and the School of Architectural Studies.

**Administration:**

The College is governed by a self-sustaining Board of Trustees, comprised of 29 voting members plus five non-voting, ex-officio members from the executive, administrative, or academic staff. The terms of approximately one-third of the Trustees expire annually with currently no limit on the number of terms a Trustee can serve. The Board holds regular meetings 4 times a year.

**Accreditation and Affiliations:**

The College's accreditation was last reaffirmed in December 1997 through a joint visit by the Western Association of Schools and Colleges (WASC) and the National Association of Schools of Art and Design (NASAD). The National Architectural Accrediting Board (NAAB) reaffirmed accreditation in June 1997; the College is scheduled for another review in 2000. The Interior Architecture program was reviewed in Fall 1999 by the Foundation of Interior Design Education Research (FIDER). The College is expecting a favorable review.

**Competition:**

The California College of Arts and Crafts competes for students locally and nationally. Among California students, CCAC considers its principal competitors are the San Francisco Art Institute, Otis College of Los Angeles, and the Southern California Institute of Architecture. School of the Art Institute of Chicago

The principal competition for out-of-state students comes from the School of the Art Institute of Chicago, the Rhode Island School of Design and the Pratt Institute of New York. 34 percent of CCAC is from outside California.

CCAC considers itself to have the advantage of being one of the few institutions to offer the wide variety of architecture, design, and fine arts programs.

**V. OUTSTANDING DEBT.**

| <b>Issue Name:</b>                     | <b>Original Amount</b> | <b>Amount Outstanding As of 4/30/99</b> | <b>Estimated Amount Outstanding after Proposed Financing</b> |
|--|------------------------|---|--|
| <b>Existing</b>                        |                        |   |  |
| <i>CEFA Pooled Loan Program, 1993B</i> | \$5,985,000            | \$5,075,000                             | \$5,075,000  |
| <i>CEFA Pooled Loan Program, 1995B</i> | 3,200,000              | 3,005,000                               | 3,005,000  |
| <i>CEFA Pooled Loan Program, 1998A</i> | 13,300,000             | 13,300,000                              | 13,300,000   |
| <i>Other long-term debt</i>            |                        | 1,038,000                               | 1,038,000  |
| <b>Proposed</b>                        |                        |   |  |
| <i>CEFA Pooled Loan Program, 2000</i>  |                        |   | 11,370,000   |
| <b>Totals</b>                          |                        | <b>\$22,418,000 *</b>                   | <b>\$33,788,000</b>  |

\* Includes \$280,000 of unamortized bond discount not reflected on balance sheet accounting of debt.

**VI. STAFF RECOMMENDATION.** Staff recommends the Authority approve a resolution for an amount not to exceed \$11,370,000 for the California College of Arts and Crafts, subject to the Series C Pool being rated at least "Baa3" by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section, and meeting the standard bond issuance provisions for Baa rated debt.