

CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

EXECUTIVE SUMMARY

Applicant: California College of Arts and Crafts ("CCAC") Oakland, California Alameda County		Bond Par Amount: \$14,500,000	
		Loan Term: 29 Years	
		Date Requested: June 28, 2001	
		Resolution Number: 187	
Facility Type: Private College			
Accreditation: Western Association of Schools and Colleges, National Association of Schools of Art and Design, and the National Architectural Accrediting Board			
Use of Bond Proceeds: Bond proceeds will be used to advance refund and restructure the existing 2000 CEFA Series C bonds. The restructuring will provide liquidity relief due to project delays as well as minimal net present value savings.			
Type of Issue:		Negotiated Public Offering, Fixed interest rate	
Credit Enhancement:		None	
Expected Rating:		Baa3 (Moody's)	
Senior Underwriter:		E.J. De La Rosa & Co., Inc.	
Bond Counsel:		Arter & Hadden LLP	
Financial Overview: CCAC has demonstrated continued, though declining, profitability. Ability to service debt has deteriorated but has remained satisfactory. This proposed new debt allows CCAC to restructure the 2000 CEFA Series C revenue bonds allowing CCAC a significant near term budgetary savings.			
Sources of Revenue (\$000) - FY 4/30/00:			
(Unrestricted Funds)		<u>Amount</u>	<u>Percent</u>
Tuition and fees		\$17,012	77%
Investment earnings		1,200	5%
Private gifts and bequests		357	2%
Other		551	3%
Net assets released from restrictions		<u>2,932</u>	<u>13%</u>
Total unrestricted revenue		<u>\$22,052</u>	<u>100%</u>
Sources of Funds:		Uses of Funds:	
Par amount of CEFA bonds	\$14,500,000	Refinance	\$ 11,778,915
Original Issue Discount	(445,000)	Capitalized Interest	1,481,766
Existing debt service reserve	879,825	Debt service reserve	1,405,500
		Financing costs	<u>268,644</u>
Total Sources	<u>\$14,934,825</u>	Total Uses	<u>\$14,934,825</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 for an amount not to exceed \$14,500,000 for the California College of Arts and Crafts, subject to a rating of 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

June 28, 2001
 Resolution Number: 187

I. PURPOSE OF FINANCING.

The purpose of financing is to advance refund and restructure CCAC's 2000 CEFA Series C revenue bonds. The new bond issue will allow CCAC to capitalize interest and defer principal expense on the bonds until the project is completed and has begun to generate offsetting dormitory rental revenue. The project had been delayed as CCAC worked with the community to resolve parking and other concerns. Legal expenses and design modification costs have added to the need to capitalize interest. Although this financing will add approximately \$1.5 million to the existing debt, the restructuring is anticipated to produce a minimal net present value interest savings of \$47,988.

The 126 bed dormitory will be located at the CCAC's Oakland campus. Construction of the dormitory has begun and completion is expected by August 2002 with occupancy for the Fall 2002 semester. Originally the project was to be completed and ready for occupancy in the Fall of 2001.

Use of Funds:

• **Refinance Bonds**..... **\$11,778,915**

The Series 2001 bonds will not include any new project financing and are solely being issued to advance refund the CCAC's 2000 CEFA Series C obligations. The transaction is being undertaken by CCAC to restructure the debt service on its bonds related to the financing of the new dormitory now under construction.

• **Capitalized Interest**..... **1,481,766**

• **Debt Service Reserve**..... **1,405,500**

• **Financing Costs**..... **268,644**

Cost of Issuance	\$110,000
Underwriters Discount	156,495
Contingency	2,149

Total Uses of Funds **\$14,934,825**

Financing Structure:

- Negotiated Public Offering
- Fixed Interest Rate
- Expected Baa3 rating (Moody's)
- 29 year term
- Debt Service Reserve Fund
- General obligation and Gross Revenue Pledge
- Deed of Trust to secure property
- Financial covenants acceptable to the Authority, which may include liquidity, debt service coverage and enrollment.

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II. FINANCIAL STATEMENTS AND ANALYSIS

California College of Arts and Crafts

Statement of Activities

Unrestricted (000's)

	<u>Fiscal Year Ended April 30,</u>		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Revenue, gains, and other support			
Net tuition and fees	\$ 17,012	\$ 15,419	\$ 13,951
Investment earnings	1,200	1,834	797
Private gifts and bequests	357	224	214
Other sources	551	359	340
Total revenue	<u>19,120</u>	<u>17,836</u>	<u>15,302</u>
Net assets released from restrictions	2,932	2,334	3,282
Net revenue	<u>22,052</u>	<u>20,170</u>	<u>18,584</u>
Expenses			
Instruction	10,207	9,037	8,032
Instructional services	2,888	2,305	1,606
Student services	2,560	2,044	1,972
Administrative and general support	2,823	2,499	2,144
Interest expense	1,201	1,294	503
Marketing and fundraising	1,475	1,554	1,040
Other	543	284	614
Total expenses	<u>21,697</u>	<u>19,017</u>	<u>15,911</u>
INCREASE IN NET ASSETS	355	1,153	2,673
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	14,402	13,249	12,176
Reclassification to restricted funds			(1,600)
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 14,757</u>	<u>\$ 14,402</u>	<u>\$ 13,249</u>

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

As of April 30

	<u>2000</u>	<u>1999</u>	<u>1998</u>
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 835	\$ 1,756	\$ 2,191
Restricted cash	1,111	3,706	55
Current portion of pledges receivable	3,535	2,728	3,399
Accounts receivable	595	395	218
Investments, short term	1,543	572	627
Prepays and other assets	353	460	476
Total current assets	<u>7,972</u>	<u>9,617</u>	<u>6,966</u>
Property and equipment, net	29,601	27,731	18,248
Investments, long-term	16,446	14,139	8,227
Pledges receivable, less current portion	313	1,054	2,502
Notes receivable	1,275	1,244	1,112
Other assets	1,412	1,391	1,153
TOTAL ASSETS	<u>\$ 57,019</u>	<u>\$ 55,176</u>	<u>\$ 38,208</u>
LIABILITIES AND NET ASSETS:			
Current liabilities:			
Accounts payable	\$ 2,348	\$ 3,269	\$ 2,437
Current portion of long-term debt	295	290	280
Other	608	872	409
Total current liabilities	<u>3,251</u>	<u>4,431</u>	<u>3,126</u>
Bonds payable	20,527	20,810	7,901
Other long-term debt	1,242	1,038	997
TOTAL LIABILITIES	<u>25,020</u>	<u>26,279</u>	<u>12,024</u>
Net assets:			
Unrestricted	14,757	14,402	13,249
Temporarily restricted	8,318	6,768	9,540
Permanently Restricted	8,924	7,727	3,395
TOTAL NET ASSETS	<u>31,999</u>	<u>28,897</u>	<u>26,184</u>
Total liabilities and net assets	<u>\$ 57,019</u>	<u>\$ 55,176</u>	<u>\$ 38,208</u>

Financial Ratios:

	<u>Proforma (a)</u> <u>YE April 30, 2000</u>	<u>2000 (a)</u>	<u>1999</u>	<u>1998</u>
Debt Service Coverage	1.74	1.74	2.04	7.27
Debt/Expendable net assets	1.54	0.93	1.02	0.38
Expendable net assets/operations		1.06	1.11	1.43
Operating margin		1.60%	5.70%	14.40%

(a) These numbers are based on audited 2000 financials which did not include the 2000 bonds. Proforma debt service stays the same as there are no additional P&I payments for the first two years of this restructuring.

Financial Discussion:

CCAC has demonstrated continued, though declining, profitability.

CCAC has exhibited steady enrollment growth during the last three years helping boost total revenue from \$15.3 million in 1998 to \$19.1 million in 2000. Although net assets have grown from \$26.1 million to \$32 million in these three years, margins have declined since 1998 due to expenses growing at a faster rate than CCAC's revenue. The most recent audited fiscal year indicates a modest net income of \$355,000, a substantial decline from \$1.1 million in 1999 and \$2.6 million in 1998. Management has indicated that fiscal year 2001 appears to be a breakeven operation.

On a positive note, the construction delays on the new student dormitory at the Oakland campus have been resolved and should improve future operational results. Management believes that student enrollment will continue to grow, given CCAC's popularity nationwide of its specialized programs, as well as the availability of affordable housing on campus.

Ability to service debt has deteriorated but has remained satisfactory.

CCAC's declining profitability has caused debt service coverage to drop from an impressive 7.82x in 1998 to a satisfactory 1.74x in 2000. CCAC's liquidity continues to decline, particularly with total cash declining in 2000 from \$5.5 million to \$1.9 million.

According to management, cash flow problems continued into fiscal year 2001 largely due to the first year's interest and principal payments on the 2000 bond debt. In addition, higher construction costs and legal fees were incurred (because the project was delayed) and projected room charge revenue was lost. CCAC also incurred higher energy cost than expected.

CCAC is highly leveraged with debt/expendable net assets of 1.54x on a proforma basis.

This proposed new debt allows CCAC to restructure the 2000 CEFA Series C revenue bonds allowing CCAC a significant near term budgetary savings.

The new bond issue will allow CCAC to capitalize interest and defer principal payments on the bonds until the project is complete and begins to generate offsetting dormitory rental revenue. This proposed financing will ease financial obligations, free up cash flow to complete the project and give time for the project to begin generating rental revenue. After three years of capitalized interest, CCAC should be able to meet debt service payments, given its current operation.

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>
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%
2000-01	862	634	345	73.5%

Enrollments and Degrees

<u>Academic Year</u>	<u>Undergraduate Headcount</u>	<u>Bachelors Degrees</u>	<u>Graduate Headcount</u>	<u>Masters Degrees</u>
1996-97	1,029	193	77	30
1997-98	1,038	191	82	36
1998-99	1,065	158	78	23
1999-00	1,083	182	69	24
2000-01	1,116	168	97	29

Tuition and Fees

<u>Academic Year</u>	<u>Tuition & Fees</u>	<u>Room Charges</u>
1996-97	\$15,050	\$3,500
1997-98	\$15,950	\$3,500
1998-99	\$17,168	\$3,500
1999-00	\$18,358	\$4,000
2000-01	\$19,460	\$4,200

Faculty:

<u>Academic Year</u>	<u>Full Time</u>	<u>Part Time</u>	<u>FTE Total</u>	<u>Tenured</u>
1996-97	31	224	101	53
1997-98	35	227	108	54
1998-99	34	267	116	54
1999-00	36	281	126	55
2000-01	32	310	136	54

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 provides housing for 56 students.

The San Francisco campus primarily houses the Architecture and Design programs. The campus is comprised of 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. CCAC also offers a Master of Fine Arts degree. Three additional Masters in Fine Arts programs are scheduled to begin in the Fall of 2000. CCAC is divided into three schools: the School of Fine Arts, the School of Design, and the School of Architectural Studies.

Administration:

CCAC 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:

CCAC'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 July 2000 for five years. The Interior Architecture program was reaffirmed in June 2000 by the Foundation of Interior Design Education Research (FIDER).

Competition:

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

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 enrollment at CCAC is from outside California.

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

V. OUTSTANDING DEBT.

Issue Name:	Original Amount	Amount Outstanding As of 4/30/00	Estimated Amount Outstanding after Proposed Financing
Existing			
<i>CEFA Pooled Loan Program, 1993B</i>	\$5,985,000	\$4,635,000	\$4,635,000
<i>CEFA Pooled Loan Program, 1995B</i>	3,200,000	2,860,000	2,860,000
<i>CEFA Pooled Loan Program, 1998A</i>	13,300,000	13,300,000	13,300,000
<i>CEFA Pooled Loan Program, 2000C</i>	11,315,000	11,315,000	0
<i>Other long-term debt</i>		1,242,000	1,242,000
Proposed			
<i>CEFA Pooled Loan Program, 2001</i>			14,500,000
Totals		<u>\$33,352,000</u> *	<u>\$36,537,000</u>

* Includes \$268,000 of unamortized bond discount not reflected on balance sheet accounting of debt.

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 for an amount not to exceed \$14,500,000 for the California College of Arts and Crafts, subject to a rating of 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.