

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM**

EXECUTIVE SUMMARY

<p>Applicant: California College of the Arts (“CCA”) 5212 Broadway Oakland, California Alameda County</p>	<p>Amount Requested: \$12,500,000 Date Requested: January 25, 2007 Loan Term: 18 years Resolution Number: 240</p>																												
<p>Facility Type: Private College Project Location: Oakland and San Francisco, CA Accreditation: Western Association of Schools and Colleges, National Association of Schools of Art and Design, and the National Architectural Accrediting Board</p>																													
<p>Use of Bond Proceeds: Bond proceeds will be used to refund the CEFA Series 1998A bonds, resulting in an estimated net present value savings of \$527,566 or 4.6%.</p>																													
<p>Type of Issue: Negotiated Public Offering, Fixed interest rate Credit Enhancement: None Expected Pool Rating: Baa3 (Moody’s) Senior Underwriter: E.J. De La Rosa & Co., Inc. Bond Counsel: Squire, Sanders & Dempsey, LLP</p>																													
<p>Financial Overview: Over the review period, CCA posted solid operating results with increases in unrestricted net assets and revenues. CCA’s balance sheet continues to grow and exhibits a positive trend in unrestricted net assets.</p>																													
<p>Sources of Revenue - FYE 4/30/06:</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">(Unrestricted Funds)</th> <th style="text-align: right;"><u>Amount</u></th> <th style="text-align: right;"><u>Percent</u></th> </tr> </thead> <tbody> <tr> <td>Tuition and fees</td> <td style="text-align: right;">\$31,216,000</td> <td style="text-align: right;">82%</td> </tr> <tr> <td>Net assets released from restrictions</td> <td style="text-align: right;">3,766,000</td> <td style="text-align: right;">10%</td> </tr> <tr> <td>Auxiliary enterprises</td> <td style="text-align: right;">1,410,000</td> <td style="text-align: right;">4%</td> </tr> <tr> <td>Investment earnings</td> <td style="text-align: right;">675,000</td> <td style="text-align: right;">2%</td> </tr> <tr> <td>Other sources</td> <td style="text-align: right;">532,000</td> <td style="text-align: right;">1%</td> </tr> <tr> <td>Private gifts and bequests</td> <td style="text-align: right;"><u>455,000</u></td> <td style="text-align: right;"><u>1%</u></td> </tr> <tr> <td>Total unrestricted revenue</td> <td style="text-align: right;"><u>\$38,054,000</u></td> <td style="text-align: right;"><u>100%</u></td> </tr> </tbody> </table>		(Unrestricted Funds)	<u>Amount</u>	<u>Percent</u>	Tuition and fees	\$31,216,000	82%	Net assets released from restrictions	3,766,000	10%	Auxiliary enterprises	1,410,000	4%	Investment earnings	675,000	2%	Other sources	532,000	1%	Private gifts and bequests	<u>455,000</u>	<u>1%</u>	Total unrestricted revenue	<u>\$38,054,000</u>	<u>100%</u>				
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<p>Legal Review: No information was disclosed to question 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 \$12,500,000 for the California College of the Arts, subject to a bond rating of at least a “Baa3” or “BBB-” by a nationally recognized rating agency, certain bond covenants as described in the “Financing Structure” section, and meeting the standard bond issuance guidelines.</p>																													

STAFF SUMMARY AND RECOMMENDATION

California College of the Arts

January 25, 2007

Resolution Number: 240

I. PURPOSE OF FINANCING.

CCA proposes to use bond proceeds to refinance the CEFA Series 1998A bonds resulting in an estimated net present value savings of \$527,566 or 4.6%. Series 2007 will be issued on parity with all other debt.

Refinancing **\$12,063,205**

This refinancing will result in an estimated annual debt service savings to CCA of \$30,000 a year.

The Series 1998A bond proceeds were originally used to fund a variety of renovation projects at both the Oakland and San Francisco campuses. The main project was the renovation of the Beta building on the San Francisco campus, which provided additional classrooms, studio space, an exhibition gallery, a photo shooting stage and individual student studio space.

Debt Service Reserve **\$1,051,844**

Financing Costs **\$254,090**

Underwriter Discount \$156,313

Cost of Issuance \$97,778

TOTAL USES OF FUNDS **\$13,369,139**

Financing Structure:

- Negotiated Public Offering, Fixed Interest Rate.
- 18-year maturity.
- Expected credit rating of Baa3 (Moody's) or BBB- (Standard & Poor's).
- 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 the Arts
Statement of Activities
(Unrestricted)

	Fiscal Year Ended April 30,		
	2006	2005	2004
Revenue and Support:			
Net Tuition and fees	\$ 31,216,000	\$ 29,440,000	\$ 26,176,000
Investment earnings	675,000	339,000	565,000
Private gifts, grants and bequests	455,000	371,000	576,000
Auxiliary enterprises	1,410,000	1,330,000	1,282,000
Other sources	532,000	391,000	357,000
Total revenues	34,288,000	31,871,000	28,956,000
Net assets released from restrictions	3,766,000	2,702,000	3,060,000
Net revenue	38,054,000	34,573,000	32,016,000
Expenses:			
Instruction	14,987,000	13,861,000	12,381,000
Instructional services	3,856,000	3,001,000	3,088,000
Student services	3,658,000	3,180,000	3,082,000
Student aid	-	352,000	375,000
Auxiliary enterprises	421,000	453,000	457,000
General and administrative	12,300,000	11,285,000	9,938,000
Marketing and fundraising	2,529,000	2,123,000	1,744,000
Total expenses	37,751,000	34,255,000	31,065,000
Change in Unrestricted Net Assets	303,000	318,000	951,000
Unrestricted net assets - beginning of year	14,391,000	14,073,000	13,122,000
Unrestricted net assets - end of year	\$ 14,694,000	\$ 14,391,000	14,073,000

California College of the Arts
Statement of Financial Position

	As of April 30,		
	2006	2005	2004
Assets			
Current assets:			
Cash and equivalents	\$ 10,600,000	\$ 7,278,000	\$ 3,439,000
Restricted cash	162,000	146,000	128,000
Accounts receivable, net	732,000	504,000	457,000
Grants/pledges receivable, current portion	5,561,000	5,595,000	1,976,000
Investments, current portion	3,919,000	1,743,000	1,174,000
Other current assets	549,000	704,000	348,000
Total current assets	<u>21,523,000</u>	<u>15,970,000</u>	<u>7,522,000</u>
Student Loans receivable, net	1,161,000	1,330,000	1,347,000
Property, plant and equipment, net	40,263,000	40,535,000	40,873,000
Grants and pledges receivable, net	2,737,000	3,530,000	3,320,000
Investments, net	34,779,000	21,851,000	20,816,000
Contributions receivable from irrevocable trusts	1,363,000	1,328,000	1,290,000
Other assets	762,000	540,000	488,000
Total Assets	<u>\$ 102,588,000</u>	<u>\$ 85,084,000</u>	<u>\$ 75,656,000</u>
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 4,077,000	\$ 3,570,000	\$ 2,869,000
Bonds payable, current portion	432,000	782,000	744,000
Capital leases payable, current portion	628,000	360,000	123,000
Tuition deposits	976,000	841,000	676,000
Other liabilities	96,000	96,000	209,000
Total current liabilities	<u>6,209,000</u>	<u>5,649,000</u>	<u>4,621,000</u>
Long-Term Liabilities:			
Bonds payable, net of current portion	44,021,000	31,301,000	32,070,000
Refundable loan program advances	739,000	886,000	890,000
Capital leases payable, net of current portion	911,000	798,000	109,000
Other long-term liabilities	976,000	1,058,000	1,141,000
Total liabilities	<u>52,856,000</u>	<u>39,692,000</u>	<u>38,831,000</u>
Net assets:			
Unrestricted	14,694,000	14,391,000	14,073,000
Temporarily restricted	18,620,000	14,859,000	8,841,000
Permanently restricted - endowment	16,418,000	16,142,000	13,911,000
Total net assets	<u>49,732,000</u>	<u>45,392,000</u>	<u>36,825,000</u>
Total Liabilities and Net Assets	<u>\$ 102,588,000</u>	<u>\$ 85,084,000</u>	<u>\$ 75,656,000</u>

Financial Ratios:

	Proforma (a)			
	April 30, 2006	2006	2005	2004
Debt service coverage (x)	1.21	1.19	1.28	1.68
Debt/ Expendable net assets(x)	1.38	1.38	1.14	1.43
Expendable net assets to operations (x)		0.88	0.85	0.74
Margin (%)		0.80	0.90	3.00

(a) Recalculates 2006 audited results to include the payment of this proposed financing.

Financial Discussion:

Over the review period, CCA posted solid operating results, with increases in unrestricted net assets and revenue growth.

CCA's increases in unrestricted net assets have ranged from \$951 million in FY 2004 to \$303 million in FY 2006. CCA's total revenues increased 19% during our review period, mostly due to continued growth in student enrollment and increases in tuition and fees. CCA's revenue stream consists primarily of student fees, which account for over 80% of its operating revenue. CCA's enrollment continues to grow and will provide a steady source of revenue for CCA. CCA's investment earnings have increased 19% from FY 2004 to FY 2006.

CCA's expenses have increased by approximately 22% over our review period. The increase is due to an expanded staff for student recruitment and student services and increased instructional costs due to both additional students and new programs. CCA has continued to expand facilities to accommodate enrollment growth experienced over the last three years, while continuing to evaluate expenses and finding ways to control costs, as needed.

CCA's balance sheet continues to grow and exhibits a positive trend in net assets.

CCA's total net assets have increased from \$36.8 million in FY 2004 to \$49.7 million in FY 2006, an increase of approximately 35% over our review period. CCA's debt service coverage ratio is projected to improve from the current level of 1.19x to a proforma of 1.21x. The slight improvement is based on the averaging of debt service payments over the term of the bonds and the savings achieved with the refinancing. Leverage will continue to be somewhat high with a debt to expendable net assets ratio on a proforma basis of 1.38x. Though CCA will be somewhat leveraged, it is anticipated that CCA will be able to repay the debt, given its 1.21x proforma debt service coverage.

III. STUDENTS, COLLEGE COSTS, AND FACULTY STATISTICS

Applications and New Enrollments

Freshman and Transfers Applicant Pool*

Academic Year	Applications	Offered Admission	New Enrollments	Selectivity Ratio
2003-04	1,186	945	384	80%
2004-05	1,229	994	418	81%
2005-06	1,344	1,033	376	77%
2006-07	1,410	1,079	362	77%

*Headcount not full time equivalent

Graduate Programs*

Fall Semester	Applications	Offered Admission	New Enrollments	Selectivity Ratio
2003	584	227	97	39%
2004	726	278	172	52%
2005	714	332	144	47%
2006	721	339	140	47%

*Headcount not full time equivalent

Enrollments and Degrees

Academic Year	Undergrad FTE	Grad FTE	Total FTE	Bachelor	Graduate	Total
2003-04	1214.6	165.3	1379.9	228	64	292
2004-05	1230.1	261.8	1491.9	236	59	295
2005-06	1273.5	294.8	1568.3	227	87	314
2006-07	1269.75	302.5	1572.3	258	63	321

Tuition and Fees:

Academic Year	Undergrad Tuition & Fees	Room & Board	Undergrad Total
2003-04	23,250	5,600	28,850
2004-05	24,640	5,800	30,440
2005-06	26,100	6,000	32,100
2006-07	27,914	6,200	34,114

Faculty:

<u>Academic Year</u>	<u>Tenured Full Time</u>	<u>Other Full Time</u>	<u>Part time FTE</u>	<u>Total FTE</u>
2003-04	25	14	129	168
2004-05	25	18	136	179
2005-06	21	20	155	196

IV. BACKGROUND

CCA, founded in 1907, has been distinguished by its recognition of the craft art forms as fine arts and for its interdisciplinary approaches to the fields of art, architecture, and design. In design, “West Coast Imagery” is largely the product of designers associated with CCA for the last two decades. In architecture, CCA has created a new American architecture school, accredited by the National Architectural Accrediting Board. CCA maintains two campuses located in Oakland and San Francisco, California. The curriculum is designed to educate artists and also has extensive requirements in humanities and sciences.

Administration:

CCA is governed by a self-sustaining Board of Trustees, comprised of 34 leaders in business and the community. 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 of Trustees is responsible for the overall management of CCA, including its physical assets, development programs, academic policy, long-range planning, and financial and budgetary affairs. The Board of Trustees has seven standing committees: Academic, Advancement, Business/Facilities, Executive, Committee on Trustees, Investment, and Marketing/Communications.

Accreditation and Affiliations:

CCA is accredited by the Western Association of Schools and Colleges (WASC). CCA is also accredited by the National Association of Schools of Art and Design (NASAD), the National Architectural Accrediting Board (NAAB), and the Foundation of Interior Design Education Research (FIDER).

Competition:

CCA's main competitors throughout the United States are as follows:

Art Center College of Design, Pasadena, CA
California Institute of the Arts, Valencia, CA
Maryland Institute College of Art, Baltimore, Maryland
Otis College of Art and Design, Los Angeles, CA
Pratt Institute, New York, NY
Rhode Island School of Design, Providence, RI
School of the Art Institute of Chicago, Chicago, IL

V. OUTSTANDING DEBT:

Issue Name:	Original Amount	Amount Outstanding As of 4/30/06	Estimated Amount Outstanding after Proposed Financing
Existing			
CEFA Pooled Loan Program, 1998A	\$13,300,000	\$12,245,000	\$0
CEFA 2001	14,490,000	14,480,000	14,480,000
CEFA 2005	18,535,000	18,535,000	18,535,000
Proposed			
<i>CEFA College and University Financing Program, Series 2007</i>			<i>12,500,000</i>
Totals		<u>\$45,260,000</u>	<u>\$45,515,000</u>

VI. RELIGIOUS AFFILIATION DUE DILIGENCE:

Staff has reviewed the Applicant's responses to the questions contained in the Religious Affiliation portion of the application. No information was disclosed in the questionnaire or discovered by staff to question the Applicant's compliance with the provisions of the Authority's Act relating to religious affiliation.

VII. COMPLIANCE WITH ASSEMBLY BILL 1341:

Assembly Bill 1341 (Chapter 714, 2006) requires that prior to an action by the Authority Board, all applicants must provide the Authority with documentation certifying that a proposed project has complied with the California Environmental Quality Act (CEQA), or that the project is not subject to CEQA.

Assembly Bill 1341 does not require retroactive compliance with CEQA documentation in regards to refinancing. Refunding bonds are not issued to finance projects but to refinance existing bond debt.

VIII. 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 the Applicant.

IX. STAFF RECOMMENDATION:

Staff recommends the Authority approve a resolution in an amount not to exceed \$12,500,000 for the California College of the Arts, subject to a bond rating of at least "Baa3" or "BBB-" by a nationally recognized rating agency, certain bond covenants as described in the "Financing Structure" section, and meeting the standard bond issuance guidelines.