

**CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY**

**BOND FINANCING PROGRAM**

**EXECUTIVE SUMMARY**

<p><b>Applicant:</b> Art Center College of Design          (“Art Center”)          1700 Lida Street          Pasadena, CA 91103          Los Angeles County</p> <p><b>Facility Type:</b> Private University</p> <p><b>Project Locations:</b> South Campus, 950 South Raymond Avenue          Pasadena, California Los Angeles County          Main Campus, 1700 Lida Street          Pasadena, California Los Angeles County</p> <p><b>Accreditation:</b> Western Association of Schools and Colleges</p>	<p><b>Amount Requested:</b> \$20,000,000</p> <p><b>Date Requested:</b> May 29, 2008</p> <p><b>Resolution Number:</b> 253</p>										
<p><b>Use of Proceeds:</b> Bond proceeds will be used to refinance a taxable bank loan that was used to complete several projects on the South Campus. In addition, Art Center plans to use bond proceeds for several projects on the Main Campus and the South Campus.</p>											
<p><b>Type of Issue:</b> Negotiated public offering, variable rates</p> <p><b>Credit Enhancement:</b> Anticipated Letter of Credit from Allied Irish Bank</p> <p><b>Expected Rating:</b> Aa2/VMIG1 (Moody’s) based on Letter of Credit</p> <p><b>Underwriter:</b> Banc of America Securities LLC</p> <p><b>Bond Counsel:</b> Orrick, Herrington and Sutcliffe, LLP</p>											
<p><b>Environmental Benefits:</b> Environmental benefits will include updating existing buildings which have recognized historic significance to ensure a long life, reducing power consumption through the installation of a new electrical power grid on the South Campus and solar cells on the roof of the pavilion in the Main Campus, and use of recyclable materials to maintain a mandate of sustainability and erosion mitigation. The construction and renovations on the South Campus will be done in a manner to enable it to maintain its LEED rating.</p>											
<p><b>Financial Status:</b> Art Center appears to continue posting positive operating results which seems to be supported by growth in tuition revenue over the review period. Art Center’s balance sheet also appears to continue to grow with good liquidity, minimal debt and a solid debt service coverage.</p>											
<p><b>Estimated Sources of funds:</b></p> <table> <tr> <td>Par Amount of Bonds</td> <td align="right">\$20,000,000</td> </tr> <tr> <td>Total Sources</td> <td align="right"><u>\$20,000,000</u></td> </tr> </table>	Par Amount of Bonds	\$20,000,000	Total Sources	<u>\$20,000,000</u>	<p><b>Estimated Uses of funds:</b></p> <table> <tr> <td>Construction/Renovation/Refunding</td> <td align="right">\$19,539,909</td> </tr> <tr> <td>Financing Costs</td> <td align="right"><u>460,091</u></td> </tr> <tr> <td>Total Uses</td> <td align="right"><u>\$20,000,000</u></td> </tr> </table>	Construction/Renovation/Refunding	\$19,539,909	Financing Costs	<u>460,091</u>	Total Uses	<u>\$20,000,000</u>
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<p><b>Legal Review:</b> No information was disclosed to question the financial viability or legal integrity of the Applicant.</p>											
<p><b>Staff Recommendation:</b> Staff recommends the Authority approve a Resolution in an amount not to exceed \$20,000,000 for Art Center College of Design subject to a bond rating of at least an “A” by a nationally recognized rating agency and meeting the standard bond issuance guidelines for “A” rated debt.</p>											

STAFF SUMMARY AND RECOMMENDATION

Art Center College of Design (“Art Center”)

May 29, 2008

Resolution Number: 253

I. **PURPOSE OF FINANCING:** Art Center seeks to refinance a taxable bank loan. In addition, Art Center plans to construct and complete several renovation projects on the Main Campus and the South Campus. These projects will provide ongoing services in more spacious surroundings, with room to meet current and future expansion needs.

**Refinancing existing debt..... \$6,356,220**

*Term Loan..... 6,356,220*

The taxable bank loan was used to construct classrooms, galleries, studio spaces, administrative offices and a garden on the South Campus. The original loan amount was \$9 million with fixed interest rate of 5.6% and had a final maturity of June 1, 2013. The project has been completed.

**Projects ..... 13,183,689**

*Main Campus Project..... 6,733,689*

Art Center plans to update and renovate the Ellwood Building and Sinclair Garden Pavilion and related appurtenant facilities, administrative offices and parking facilities. The Ellwood structure, the primary building on the Main Campus, is a 217,000 square foot structure built on 175 acres, and is home to Art Center’s 1,400 full time undergraduate students and also houses some of the graduate programs, as well as administrative offices. The City has recognized the building’s design as a local historic monument. The Sinclair Garden Pavilion offers students a place to gather, socialize, and exchange ideas. The site provides a flexible gallery space, a small kitchen, and open-air, amphitheater-type seating.

*Environmental Benefits:*

The planned projects will ensure that the main building of the Hillside campus is maintained to ensure its long life. As with all Art Center projects, Art Center will maintain a mandate of sustainability by using recyclable materials and passive-solar energy sources. The roof of the Sinclair Garden Pavilion will have solar cells to provide power for heating the facility. While it is difficult to totally mitigate the need for parking on the Hillside Campus, which exists in a residential neighborhood with almost no public transportation alternatives to the automobile, Art Center is reluctant to build a parking structure. A Grasspave solution will allow Art Center to do three things: act as an erosion mitigation measure on its hillside, provide handicapped access to parking and other public places on the campus, and allow parking on non-paved surfaces when necessary without destroying the lawn.

*Design Resource Center Project*..... \$3,450,000  
 The Design Resource Center (DRC) will be erected next to the Ellwood building on the Hillside Campus. The DRC will combine a modern library and a state of the art studio and prototyping space. Construction and renovation of the \$50 million DRC is not planned until at least 2010, and will be contingent on a successful fundraising campaign. Bond proceeds will be used for the preparation of schematic and design development drawings.

*South Campus Project*..... 3,000,000  
 Art Center will improve, install, renovate, rehabilitate, construct, furnish and equip various areas of the existing building, including the lower mezzanine and basement areas in which will be constructed conference rooms, classrooms, a multi-media presentation space, open studio space, storage, restroom and show facilities primarily for the College's graduate programs.

*Environmental Benefits:*

Art Center's original renovation of this facility (part of which was financed by the existing debt now being refinanced) resulted in the first LEED rated institutional building in Pasadena, California. To maintain the LEED rating, the planned project includes shower facilities to encourage the use of bicycles and all furnishings and materials are made from recycled materials. Additionally, the installation of a new electrical power grid will reduce energy consumption and provide new ability to control the skylights in the building which will also contribute to a reduction in solar heat gain affecting energy costs.

***Financing costs***..... 460,091

Costs of Issuance..... \$400,000  
 Letter of Credit..... \$60,091

***TOTAL USES OF FUNDS*** ..... \$20,000,000

**Financing Structure:**

- Negotiated public offering
- General obligation pledge
- Letter of credit anticipated from Allied Irish Bank through 2011
- Variable rate
- 32-year term, final maturity 2040
- Expected rating: Moody's rating of Aa2 based on letter of credit

## II. FINANCIAL ANALYSIS:

### Art Center College of Design

#### Statement of Activities

#### Unrestricted

(In thousands)

	Fiscal Year Ended December 31,		
	2006	2005	2004
<b>Operating:</b>			
<b>Revenues:</b>			
Net tuition and fees	\$ 52,473	\$ 49,281	\$ 44,856
Private gifts and grants	1,647	3,101	3,682
Investment and other income	1,485	438	293
Spending policy income	152	180	199
Sales and services of auxiliary enterprises	781	805	721
Other	1,008	640	1,176
Net assets released from restrictions	4,660	5,512	6,301
Total revenues	<u>62,206</u>	<u>59,957</u>	<u>57,228</u>
<b>Expenses:</b>			
Education	45,600	41,715	38,551
Student services	5,691	5,355	5,071
Administration	9,421	8,072	6,494
Advancement	2,378	2,318	2,063
Auxiliary services	504	496	416
	<u>63,594</u>	<u>57,956</u>	<u>52,595</u>
<b>Increase in nets assets from operating activities</b>	(1,388)	2,001	4,633
<b>Non-operating activities</b>			
Endowment income, net	705	268	407
Net change in acutarial obligatons	(47)	57	-
Realized and unrealized gain on investments	1,637	611	1,746
Other expenses	(261)	(270)	(339)
Increase in net assets from nonoperating activities	<u>2,034</u>	<u>666</u>	<u>1,814</u>
<b>Increase in nets assets</b>	<b>646</b>	<b>2,667</b>	<b>6,447</b>
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	<u>44,729</u>	<u>42,062</u>	<u>35,615</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ 45,375</u>	<u>\$ 44,729</u>	<u>\$ 42,062</u>

**Art Center College of Design**  
**Statement of Financial Position**  
(In thousands)

	As of December 31,		
	2006	2005	2004
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 4,447	\$ 8,502	\$ 7,496
Accounts and notes receivable, net	3,318	3,805	3,496
Contributions receivable, net	2,835	3,309	5,069
Investments	55,559	45,301	29,522
Other assets	802	274	421
Bond issuance costs, net	393	408	424
Property, plant and equipment, net	52,965	54,796	54,671
Total assets	<u>\$ 120,319</u>	<u>\$ 116,395</u>	<u>\$ 101,099</u>
<b>LIABILITIES AND NET ASSETS:</b>			
<b>Liabilities:</b>			
Account payable	\$ 1,276	\$ 1,260	\$ 2,782
Accrued liabilities	3,060	3,131	3,053
Unearned tuition income	552	538	433
Federal student loan funds	428	424	332
Capital lease obligations	-	-	145
Annuity obligations	184	155	-
Term loan	7,326	7,954	8,582
Bonds payable	22,300	22,900	23,500
Total liabilities	<u>35,126</u>	<u>36,362</u>	<u>38,827</u>
<b>Net assets:</b>			
Unrestricted	45,375	44,729	42,062
Temporarily restricted	5,260	2,737	2,869
Permanently restricted	34,558	32,567	17,341
<b>TOTAL NET ASSETS</b>	<u>85,193</u>	<u>80,033</u>	<u>62,272</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 120,319</u>	<u>\$ 116,395</u>	<u>\$ 101,099</u>

Financial Ratios

	<b>Proforma (a)</b>			
	<u>FYE 12/31/06</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Debt service coverage (x)	1.77	2.32	2.52	4.49
Debt to expendable net assets (x)	0.79	0.45	0.50	0.54
Expendable net assets to operations (x)		0.80	0.82	0.85
Margin (%)		(2.2)	3.3	8.1

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

### **Financial Discussion:**

**Art Center appears to continue posting positive operating results, which appear to be supported by growth in tuition revenue over the review period.**

Art Center reports that it relies on tuition as a primary source of its revenue. According to the audited financials provided by Art Center, in FY 2006, tuition revenue accounted for 84.3% of total revenues. Other revenue sources include investment income, and private gifts and grants, providing Art Center with a diversified revenue base. Total revenues for FY 2006 totaled approximately \$62.2 million and increased approximately 8.0% from FY 2004.

Operating expenses totaled \$63.5 million in FY 2006, increasing by \$5.6 million or 9.6% as compared to the prior fiscal year. This increase in operating expenses was due to a spike in student enrollment in FY 2006.

**Art Center's balance sheet also appears to continue growing with good liquidity, minimal debt and a solid debt service coverage.**

Unrestricted net assets appear to have increased approximately 7.8% over the review period. Art Center reports that its cash and cash equivalents decreased from approximately \$7.4 million in FY 2004 to approximately \$4.4 million in FY 2006 due to the use of cash for construction and timing of reimbursement. Debt service coverage is currently a solid 2.32x and with the proposed new debt of \$20 million will remain solid at 1.77x. Debt to expendable net assets ratio will increase slightly from a 0.45x to 0.79x remaining at an acceptable level.

### **III. 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 Art Center's Main Campus is located on a 175-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. Art Center's South Campus consists of an approximately 98,000 square foot building near downtown Pasadena. Art Center does not own or operate student housing. Art Center offers exchange opportunities and joint programs with the nearby California Institute of Technology and Occidental College.

#### **Administration:**

Art Center is a nonprofit organization governed by a board of trustees. Trustees currently number 16 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, governance, facilities and development.

#### **Accreditations and Affiliations:**

Art Center is fully accredited by the Western Association of Schools and Colleges (WASC). The last accreditation was in 2007, resulting in a reaffirmation of accreditation. 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:**

Art Center 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.

**IV. OUTSTANDING DEBT (000's):**

Issue	Original Amount	Amount Outstanding As of 12/31/06*	Amount Outstanding after Proposed Financing
<b>Existing:</b>			
CEFA Series 2002A	\$12,000	\$10,545	\$10,545
CEFA Series 2002B	13,000	11,755	11,755
Term Loan 2003	9,000	6,600	-0-
 <b>Proposed:</b>			
<b>CEFA Revenue Bonds, Series 2008</b>		_____	<u><b>20,000</b></u>
<b><i>Total</i></b>		<u><b>\$28,900</b></u>	<u><b>\$42,300</b></u>

\*Includes current portion.

**V. DUE DILIGENCE:**

Due diligence has been completed with regard to the following items:

- Religious Due Diligence
- Legal Review
- Compliance with Section 94212(b) of the Education Code – California Environmental Quality Act

**VI. STAFF RECOMMENDATION:**

Staff recommends the Authority approve a Resolution in an amount not to exceed \$20,000,000 for Art Center College of Design subject to a bond rating of at least an “A” by a nationally recognized rating agency and meeting the standard bond issuance guidelines for “A” rated debt.