CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY
BOND FINANCING PROGRAM

EXECUTIVE SUMMARY

Applicant:	California College of the Arts (the "College") 5212 Broadway Oakland, California Alameda County	**Amount Requested:**	$13,000,000
		Date Requested:	April 26, 2012
		Resolution Number:	288
Facility Type:	Private University		
Project Location:	Oakland, CA		
Accreditation:	Western Association of Schools and Colleges		

Use of Proceeds: Bond proceeds will be used to refund all or a portion of the CEFA Series 2001 bonds. The refunding of these bonds is expected to provide the College with a net present value savings of approximately $584,700 or 5.019%, under current market conditions.

Type of Issue: Negotiated public offering, fixed rates of $5,000 minimum denominations
Credit Enhancement: None
Expected Credit Rating: Baa3 (Moody's)
Financing Team: *Please see Exhibit 1 to identify possible conflicts of interest*

Environmental Benefits: Because this is a refunding of existing debt, environmental benefits are not applicable to this financing.

Financial Overview: The College has experienced significant revenue growth over the review period resulting from increases in enrollment and tuition. The College's balance sheet appears strong and total net assets show steady growth.

Sources of Funds:		**Uses of Funds:**	
Par Amount of Bonds	$13,000,000	Refunding	$11,987,124
Original Issue Discount	(622,634)	Debt Service Reserve Fund	1,575,500
Equity Contribution	72,743	Financing Costs	336,485
Prior Debt Service Reserve Fund	1,449,000		
Total Sources	$13,899,109	Total Uses	$13,899,109

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends the Authority approve Resolution No. 288 in an amount not to exceed $13,000,000 for the California College of the Arts subject to a bond rating of at least investment grade by a nationally recognized rating agency and meeting the standard bond issuance guidelines. Macias, Gini & O'Connell, LLP, the Authority's financial analyst, and Public Financial Management, Inc., the Authority's financial advisor, concur with the Authority's staff recommendations.

(KW)

STAFF SUMMARY AND RECOMMENDATION

California College of the Arts (the "College")
April 26, 2012
Resolution Number: 288

I. PURPOSE OF FINANCING: The College intends to use bond proceeds to refund the callable portion of the CEFA Series 2001 bonds, providing an estimated net present value savings of $584,700 or 5.019%, under current market conditions.

Refunding **$11,987,124**

The College intends to refund a portion of the outstanding balance of the CEFA Series 2001 bonds, of which $14,405,000 is currently outstanding.

CEFA Series 2001 bonds were originally issued in July of 2001 in the amount of $14,490,000. Bond proceeds were used to advance refund and restructure its CEFA Series 2000C revenue bonds providing liquidity relief due to project delays and allowed the College to capitalize interest and defer principal payments on the bonds until the project was completed and generating rental revenue. CEFA Series 2000C proceeds were used to build a 126-bed dormitory located at the College's Oakland campus and the purchase and renovation of two-floors of a five-story building located at 1515 Webster Street in Oakland for the creation of a 90-bed dormitory.

Debt Service Reserve Fund **1,575,500**

Financing Costs **336,485**

Underwriter Fee and Expenses $166,985
Costs of Issuance 169,500

TOTAL USES OF FUNDS ***$13,899,109***

II. PROPOSED COVENANTS, SECURITY AND DISCLOSURES:

Executive summary and recommendations include minimum requirements. Additional or more stringent covenants or disclosures may be added following consultation with Authority staff but without further notification to the Authority's Board. These covenants cannot be diluted or removed without subsequent review. If there have been modifications to the covenant proposal following the preparation of this executive summary, staff will report such changes at the meeting.

After reviewing the College's credit profile, including its current financial profile, prior bond transactions and considering what the market will support, the financing team has concluded that the covenants listed below align the interests of the College, the Authority, and the investors and therefore are appropriate to this transaction. The financing team notes that these covenants contain necessary tax and legal covenants that are consistent with those that have applied to the College's prior bond transactions and the College's current financial situation does not suggest that additional covenants should be required.

- **Unconditional Promise to Pay.** *Borrower agrees to pay Trustee all amounts required for principal and interest and other payments and expenses designated in the Loan Agreement. All Revenues*[1] *and any other amounts held in a designated fund or account under the Indenture are pledged to secure the full payment of the bonds.*
- **Security Interest in Designated Property/Deed of Trust.** *The Borrower will deliver Deeds of Trust securing the bonds. The Deed of Trust will encumber Borrower properties in San Francisco and Oakland.*
- **Limited Permitted Encumbrances.** *Borrower is subject to a restrictive set of allowable encumbrances it may incur pursuant to the Loan Agreement and the Deeds of Trust.*
- **Disposition of Property Limitations.** *Borrower agrees not to sell, lease or dispose of substantially all assets unless authorized by the Loan Agreement.*
- **Pledge of Gross Revenues.** *Borrower pledges to the Authority a security interest in its revenues, income, receipts and money received into a Gross Revenues Fund held by the Borrower and over which the Trustee has a control deposit account agreement.*
- **Enrollment**. *The Borrower agrees to maintain combined graduate and undergraduate enrollment of at least 900.*
- **Debt Service Reserve.** *Account established under the Indenture to make principal and interest payments if the Borrower fails to deposit timely payments.*
- **Debt Service Coverage Requirement.** *A minimum ratio agreed to by the Borrower to make interest and principal payments as they become due by assessing the amount of revenue available to meet debt service payments.*
- **Additional Debt Limitation.** *Borrower agrees not to incur additional Debt unless authorized by the Loan Agreement.*
- **Parity.** *The Pledge of Gross Revenues and the Deeds of Trust will be given on a parity basis with corresponding pledges and deeds of trust given to secure prior Authority bond issues in favor of the Borrower.*
- **Cash or Liquidity Requirements.** *Borrower promises to maintain a balance of its liquid assets, as compared to its outstanding long term debt, at a prescribed level. This is measured annually as of the end of each fiscal year based on the Borrower's audited financial statements. This covenant has been part of the Borrower's prior loan agreements with the Authority.*
- **Comply with SEC Rule 15c2-12.** *The rule prohibits underwriters from underwriting municipal bond deals unless the issuer or borrower contractually agrees to disclose designated financial and operating information to the marketplace during the life of the bonds and to report designated "material events" such as missed debt service payments, any change in bond ratings, defeasance, redemptions, etc.*

[1] Capitalized terms are defined in the Indenture or Loan Agreement.

III. FINANCIAL ANALYSIS:

California College of the Arts
Statement of Activities
Unrestricted ($000's)

	Year Ended April 30		
	2011	2010	2009
Revenues:			
Tuition and fees, net	$ 46,747	$ 41,837	$ 37,780
Investment and endowment earnings	109	129	350
Private gifts, grants and bequests	991	336	451
Auxiliary enterprise	2,013	1,906	1,951
Other sources	485	468	411
Net assets released from restriction	3,249	3,264	3,327
Total net revenue and support	53,594	47,940	44,270
Expenses:			
Instruction	23,021	20,811	19,895
Instructional services	4,017	3,895	4,121
Student services	5,474	4,838	4,884
Auxiliary enterprises	535	553	576
Administrative	4,260	3,652	4,159
General institution support	1,331	1,218	1,110
Facilities	4,005	3,725	4,271
Depreciation	2,144	2,121	2,048
Interest on indebtedness	2,329	2,352	2,391
Fundraising and communication	2,701	2,318	2,876
Total expenses	49,817	45,483	46,331
Change in net assets from operations	3,777	2,457	(2,061)
Non-operating Revenues and Expenses:			
Investment earnings on endowment, reinvested	123	839	(930)
Private gifts, grants and bequests	-	-	(153)
Net assets released from restrictions	6,443	830	3,981
Increase (decrease) in net assets	6,566	1,669	2,898
Change in net assets	10,343	4,126	837
UNRESTRICTED NET ASSETS, BEGINNING OF YEAR	25,526	21,400	20,563
UNRESTRICTED NET ASSETS, END OF YEAR	$ 35,869	$ 25,526	$ 21,400

California College of the Arts

Statement of Financial Position ($000's)

	As of April 30,		
	2011	2010	2009
ASSETS:			
Current Assets:			
Cash and cash equivalents	$ 10,009	$ 10,686	$ 7,239
Restricted cash	82	60	45
Accounts receivable-net of allowances for doubtful accounts of $295 in 2011 and $351 in 2010	488	479	546
Grants and pledges receivable, current portion	3,550	1,880	2,507
Other current assets	543	484	545
Total current assets	14,672	13,589	10,882
Non-Current Assets:			
Notes receivable-net of allowance for doubtful accounts of $253 in 2011 and $197 in 2010	918	1,039	1,060
Property, plant and equipment, net	66,991	58,954	59,850
Grants and pledges receivable, net	3,338	1,534	1,952
Bond reserve funds	4,104	4,121	4,087
Investments	28,737	26,957	22,597
Contributions receivable from irrevocable trusts	1,650	1,352	1,269
Other assets	803	783	796
Total assets	$ 121,213	$ 108,329	$ 102,493
LIABILITIES AND NET ASSETS:			
Current Liabilities:			
Accounts payable and accrued liabilities	$ 5,979	$ 5,336	$ 5,300
Bonds payable, current portion	602	571	546
Capital leases payable, current portion	450	291	397
Tuition deposits	1,499	1,642	1,365
Other liabilities	96	146	96
Total current liabilities	8,626	7,986	7,704
Long-Term Liabilities:			
Bonds payable, net of current portion	42,104	42,726	43,318
Refundable loan program advances	534	628	630
Capital leases payable, net of current portion	295	216	193
Other long-term liabilities	569	652	728
Total liabilities	52,128	52,208	52,573
Net assets:			
Unrestricted	35,869	25,526	21,400
Temporarily restricted	14,427	12,042	10,187
Permanently restricted	18,789	18,553	18,333
TOTAL NET ASSETS	69,085	56,121	49,920
TOTAL LIABILITIES AND NET ASSETS	$ 121,213	$ 108,329	$ 102,493

Financial Ratios

	Proforma FYE 4/30/11	2011	2010	2009
Debt service coverage (x)	2.05	2.38	2.00	0.67
Debt to expendable net assets (x)	0.86	0.86	1.17	1.41
Expendable net assets to operations (x)		1.01	0.83	0.68
Margin		7%	5%	(5%)

(a) Recalculates FY 2011 results to include the impact of this proposed financing

<u>Financial Discussion</u>:

Over the review period, the College experienced significant revenue growth resulting from increases in enrollment and tuition.

In the three-year review period, total unrestricted revenues increased 21%, from approximately $44.3 million in FY 2009 to approximately $53.6 million in FY 2011. A major factor contributing to the increase includes significant growth in net tuition and fees, which accounts for nearly 87% of the College's total unrestricted revenues in FY 2011. The College reports the revenue increase is a result of an annual 6% increase in tuition and an increase in full-time enrollment. The College credits the increase in enrollment to the investment of additional new design programs and improvements to their advising and support services for students.

The College's operating expenses have kept in line with revenue, increasing slightly over the review period totaling approximately $49.8 million in FY 2011, increasing approximately 8% from $46.3 million in FY 2009. The College attributes the increase primarily to the costs related to increased enrollment, as well as the introduction of new programs, annual salary adjustment, and a dramatic expansion and revision of academic advising and support for student services.

Over the review period, net operating results improved from a negative $2.06 million in FY 2009 to approximately $3.78 million in FY 2011. The College reports the improvement to higher than expected enrollments in FY 2010 and FY 2011 resulting in higher operating surpluses.

The College's balance sheet appears strong and total net assets show steady growth over the review period.

The College's balance sheet appears strong and total net assets levels show steady growth over the review period, increasing approximately 38% from approximately $49.9 million in FY 2009 to approximately $69.1 million in FY 2011. Property, plant and equipment increased over the review period, from approximately $59.8 million in FY 2009 to approximately $66.9 million in FY 2011. The College reflects the increase in property, plant and equipment to substantial investments in technology for new and existing programs, as well as facilities upgrades on both campuses. In addition, in FY 2011 the College acquired land adjacent to the San Francisco campus.

Cash and cash equivalents fluctuated over the review period increasing from approximately $7.2 million in FY 2009 to approximately $10.7 million in FY 2010, then dropped slightly too approximately $10.0 million in FY 2011. The College accredits the fluctuation primarily to the purchase of land adjacent to the San Francisco campus which was partially self-financed on an interim basis. The purchase of the land will ultimately be funded through pledges and gifts from the College's Board of Trustees. The College reports that without the real estate acquisition, the unrestricted cash balance at the end of FY 2011 would have been approximately $5.3 million higher. In addition, the College reports the increases in grants and pledges is also attributed to the purchase of the property, receiving a bequest of $500,000 from an alumna in FY 2011.

The College's debt service coverage ratio has steadily improved over the review period reflecting a debt service coverage ratio of 2.38x for FY 2011. With the new debt, the College's proforma debt service coverage remains stable with 2.05x indicating the College's ability to carry the additional debt.

IV. BACKGROUND:

General:

The California College of the Arts (the "College"), 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 the College for the last two decades. In architecture, the College has created a new American architecture school, accredited by the National Architectural Accrediting Board. The College maintains two campuses located in Oakland and San Francisco, California. The curriculum is designed to educate artists, not just to train specialists; thus, the College also has extensive requirements in humanities and sciences.

Administration:

The College is governed by a self-sustaining Board of Trustees, comprised of 33 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 the College, including its physical assets, development programs, academic policy, long-range planning, and financial and budgetary affairs. The Board of Trustees has eight standing committees: Academic, Advancement, Finance/Audit, Executive, Committee on Trustees, Investment, Facilities, and Marketing/Communications.

The President of the College is appointed by the Board of Trustees and, as chief executive officer, is charged with the principal responsibility for administration of the College. All other officers of the College are appointed by the Board of Trustees but are subject to the day-to-day direction of the President.

Accreditations and Affiliations:

The College is accredited by the Western Association of Schools and Colleges (WASC). The College is also accredited by the National Association of Schools of Art and Design (NASAD), the National Architectural Accrediting Board (NAAB), and the Council for Interior Design (CIDA).

Academic Programs:

The College offers a Bachelor Degree in Fine Arts, Arts, and Architecture. The College offers a Master's Degree in Fine Arts, Arts, Architecture, and Business Administration Design Strategy.

V. OUTSTANDING DEBT ($000's):

Existing Debt:		Original Issue Amount		Amount Outstanding as of April 30, 2011		Estimated Amount Outstanding After Proposed Financing*	
CEFA, Series 2001	$	14,490	$	14,406	$	2,755	
CEFA, Series 2005		18,535		18,535		18,535	
CEFA, Series 2007		11,240		9,500		9,065	**
Proposed:							
CEFA, Series 2012				-		**13,000**	
Total			$	42,441	$	43,355	

* Includes debt as of March 31, 2012 & proposed new debt.

** Current outstanding as of March 31, 2012 (reflects principle payment made February 2, 2012).

VI. 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 – Not required with this financing
- Iran Contracting Act

VII. STAFF RECOMMENDATION:

Staff recommends the Authority approve Resolution No. 288 in an amount not to exceed $13,000,000 for the California College of the Arts subject to a bond rating of at least investment grade by a nationally recognized rating agency and meeting the standard bond issuance guidelines. Macias, Gini & O'Connell, LLP, the Authority's financial analyst, and Public Financial Management, Inc., the Authority's financial advisor, concur with the Authority's staff recommendations.

EXHIBIT 1

Financing Team
California College of the Arts

Borrower:	California College of the Arts
Agent for Sale:	State Treasurer's Office, Public Finance Division
Issuer's Counsel:	Attorney General's Office
Issuer's Financial Advisor:	Public Financial Management, Inc.
Bond Counsel:	Squire, Sanders (US) LLP
Underwriter:	Wedbush Securities, Inc.
Underwriters Counsel:	Quint & Thimmig, LLP
Borrower's Counsel:	Adler & Colvin
Trustee/Escrow Bank:	The Bank of New York Mellon Trust Company, N.A.
Trustee Counsel:	TBD
Rating Agency:	Moody's Investors Service
OS/Printer:	TBD

RESOLUTION NO. 288

RESOLUTION OF THE CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY AUTHORIZING THE ISSUANCE OF REVENUE BONDS TO REFINANCE EDUCATIONAL FACILITIES FOR CALIFORNIA COLLEGE OF THE ARTS

WHEREAS, the California Educational Facilities Authority (the "Authority"), a public instrumentality of the State of California, is authorized and empowered by the provisions of the California Educational Facilities Authority Act (the "Act") to issue revenue bonds to finance and refinance the acquisition, construction, improvement, installation, renovation, rehabilitation, furnishing and equipping of educational facilities by participating private colleges and universities located in the State of California;

WHEREAS, California College of the Arts (the "Borrower") has requested that the Authority issue its revenue bonds in one or more series (the "Bonds") and loan the proceeds to the Borrower for the purpose of refunding all or a portion of the Authority's outstanding Revenue Bonds (California College of Arts and Crafts), Series 2001 (the "Prior Bonds") which were issued to refinance the costs of the acquisition, construction, improvement, installation, renovation, rehabilitation, furnishing and equipping of certain educational facilities, in each case, with related and appurtenant facilities as more fully described in Exhibit A hereto (the "Project"); and paying costs incurred in connection with the issuance of the Bonds, including costs of a debt service reserve fund; and

WHEREAS, to the extent required by subdivision (b) of Section 94212 of the Education Code, the Borrower has provided documentation to the Authority, if applicable, demonstrating that the Project has complied with Division 13 (commencing with Section 21000 of the Public Resources Code), or is not a project under that division.

NOW, THEREFORE, BE IT RESOLVED by the California Educational Facilities Authority as follows:

Section 1. Pursuant to the Act, revenue bonds of the Authority designated as "California Educational Facilities Authority Revenue Bonds (California College of the Arts) Series 2012", in the total aggregate principal amount not to exceed $13,000,000 is hereby authorized to be issued from time to time, in one or more series, with such other name or names with respect to a series as may be designated in the indenture pursuant to which the Bonds shall be issued. The proceeds of the Bonds shall be used for any or all of the purposes set forth in the second WHEREAS paragraph above.

Section 2. The Treasurer of the State of California (the "Treasurer") is hereby authorized to enter into agreements to sell the Bonds in one or more series, on one or more sale dates at any time within 12 months of the date of the adoption of this Resolution, at negotiated sale, in such aggregate amount and in such series, at such price and at such interest rate or rates as the Treasurer, with the advice and consent of the Borrower, may determine. The Bonds shall, at issuance, include a bond rating of at least investment grade by a nationally recognized rating agency. The Bonds or any series of them may, at the option of the Borrower, be secured by bond insurance or a credit facility and supported by one or more liquidity facilities meeting the terms of the indenture pursuant to which such Bonds will be issued.

Section 3. The following documents:

(i) the Loan Agreement relating to the Bonds (the "Loan Agreement"), between the Authority and the Borrower;

(ii) the Indenture relating to the Bonds (the "Indenture"), between the Authority and The Bank of New York Mellon Trust Company, NA, or another bond trustee to be selected by the Borrower from among bond trustees previously approved by the Authority in other Authority transactions or any successor bond trustee thereto (the "Trustee");

(iii) the Bond Purchase Agreement, including the appendices thereto, relating to the Bonds (the "Bond Purchase Contract"), among Wedbush Securities, Inc. (the "Underwriter"), the Treasurer and the Authority, and approved by the Borrower; and

(iv) the preliminary official statement relating to the Bonds (the "Preliminary Official Statement")

are hereby approved in substantially the respective forms currently on file with the Authority, in each case with such insertions and changes therein consistent with the stated terms of this Resolution (including without limitation changes with respect to covenants) as the officer(s) executing the same, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof in the case of the Loan Agreement, the Indenture and the Bond Purchase Contract, and by delivery thereof in the case of the Preliminary Official Statement.

Section 4. The dated dates, maturity dates (not exceeding 50 years from the respective date of issue), interest rates, methods of determining the interest rate from time to time, interest payment dates, denominations, forms, registration privileges or requirements, provisions for a debt service reserve fund or place or places of payment, tender provisions (if any), terms of redemption and other terms of the Bonds, including provisions for a credit facility and/or a liquidity facility, if any, from time to time, shall be as provided in the Indenture, as finally executed.

Section 5. The Underwriter is hereby authorized to distribute the Preliminary Official Statement in paper and/or electronic form, for each issue or series of the Bonds to persons who may be interested in the purchase of the Bonds. The Underwriter is hereby directed to deliver a copy of an appropriate final Official Statement (the "Official Statement") to all actual purchasers of the Bonds.

Section 6. The Bonds, when so executed, shall be delivered to the Trustee for authentication by the Trustee. The Trustee is hereby requested and directed to authenticate the Bonds by executing the Trustee's Certificate of Authentication appearing thereon, and to deliver the Bonds, when duly executed and authenticated, to or upon direction of the Underwriter, in accordance with written instructions executed on behalf of the Authority, which instructions are hereby approved. Said instructions shall provide for the delivery of the Bonds to or upon direction of the Underwriter, in accordance with the Bond Purchase Contract upon payment of the purchase price specified therein.

Section 7. Each officer of the Authority is hereby authorized and directed to do any and all things which they may deem necessary or advisable in order to consummate the issuance, sale and delivery of the Bonds and otherwise to effectuate the purposes of this Resolution and the Indenture, the Loan Agreement, the Bond Purchase Contract and the Official Statement. The Authority hereby approves any and all documents to be delivered in furtherance of the foregoing purposes, including without limitation: (a) a tax agreement and any certificates related thereto; (b) an escrow agreement; (c) an intercreditor agreement; (d) all documents relating to deeds of trust given as security for the Bonds; (e) documents, including account control agreements, relating to the Borrower's gross revenue pledge securing the Bonds and (f) any agreement or commitment letter with respect to the provisions of bond insurance, a letter of credit, a surety bond and/or a liquidity facility, if any, for the Bonds.

Section 8. The provisions of the Authority's Resolution No. 2011-03 apply to the documents and actions approved in this Resolution.

Section 9. The Authority hereby approves and ratifies each and every action taken by its officers, agents and employees prior to the date hereof in furtherance of the purposes of this Resolution.

Section 10. This Resolution shall take effect from and after the date of adoption.

Date of Adoption:

EXHIBIT A TO RESOLUTION NO. 288

Description of the Project

The Bonds are being issued to refinance all or a portion of the Prior Bonds which were issued to refinance the Project described below:

1. Renovation of top two floors of a five-story Julia Morgan-designed historical building. The purchase of the two partially finished floors from the YWCA and complete the renovation to create a 90-bed dormitory for students. The building is located at 1515 Webster Street, Oakland, California; and

2. Construction of a 126-bed student housing facility and 38 parking spaces on College-owned property located at 5276 Broadway Street, Oakland, California, contiguous to the campus.