STAFF SUMMARY RECOMMENDATION

ART CENTER COLLEGE OF DESIGN

Resolution Number 275

August 26, 2010

ISSUE: Art Center College of Design ("Art Center") is requesting to supplement and amend its 2002 and 2009 Indentures and Loan Agreements to include a new interest rate mode ("Index Rate Mode") and certain provisions relating to the Index Rate Mode.

BACKGROUND: Art Center came before and was approved by the CEFA board for bond financing at the March 28, 2002 and July 30, 2009 Authority meetings. Both the CEFA Series 2002 and Series 2009 bond series were issued in variable rate mode with Letters of Credit ("LOC") supplied by Wells Fargo Bank, National Association ("Wells Fargo"). As of August 1, 2010, \$30,330,000 remains outstanding of the CEFA Series 2002 and 2009 bonds.

The LOCs securing the bonds are set to expire September 1, 2010. Art Center has decided to neither extend the current LOC nor pursue a replacement credit facility, but instead to adjust the existing bond documents to provide for a remarketing of the bonds to the current LOC bank and apply a new interest rate mode to them for a period of five years. By doing so, Art Center expects to save approximately \$250,000 over five years on fees and costs associated with carrying a LOC. Further, Art Center will eliminate "remarketing risk" during the five year period.

As a result of the LOC expiration and pursuant to the current bond documents, the bonds will be subject to a mandatory tender on August 27th. Art Center will redeem or purchase and cancel \$330,000 of the bonds and \$30,000,000 will be remarketed to Wells Fargo, who has agreed to purchase the bonds in the new Index Rate Mode for an initial period (up to five years). Wells Fargo will be the sole purchaser of the bonds upon such remarketing.

Without a credit facility securing the bonds, the bonds will be unrated. Under the Authority's current bond guidelines, unrated debt issuances require a debt service reserve account and a security interest in property equal to 100% of the debt. Art Center is requesting an exception to the guidelines to forgo a reserve requirement entirely and approve a modified security interest in property. Concurrently with the proposed amendments, Art Center will grant a lien upon and security interest in its gross revenues and certain other real and personal property of Art Center. Those liens will secure the bonds as well as certain other obligations of the Art Center, including obligations under a swap agreement with Wells Fargo. The deed of trust property includes the Borrower's main campus which was recently appraised at a value of \$70 million. The Borrower expects that the value of the deed of trust property would exceed the sum of potential obligations under the bonds and other obligations secured by the deed of trust.

RECOMMENDATION: Staff recommends the Authority approve Resolution No. 275 authorizing the execution and delivery of the Supplemental Loan Agreements and Indentures relating to the Art Center College of Design, Series 2002 and 2009 bonds.