

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
501(c)(3) REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	The Colburn School (School or Borrower)	Amount Requested:	Not to exceed \$64,925,000
Applicant Description:	A California nonprofit public benefit corporation providing high-quality performing arts education to students of all ages (toddler to adult) and abilities (novice to advanced).	Date of Board Meeting:	September 27, 2011
		Type of Issue:	Refunding
		Resolution Number:	11-21
Project Sites:	200 South Grand Avenue, Los Angeles 201 South Olive Street, Los Angeles	Prepared by: Tara Dunn	
Project Description:	The project (Project) involves refunding the outstanding California Infrastructure and Economic Development Bank Variable Rate Revenue Bonds, Series 2006A (2006 Bonds), the proceeds of which were used to finance and refinance the construction, equipping and furnishing of improvements to the School's facilities (Prior Projects).		
Uses of Bond Proceeds:	Bond proceeds (2011 Bonds) will be used to (i) pay the costs of the Project, and (ii) pay for costs of issuance.		
Public Benefits:	The School anticipates the 2011 Bonds variable rate structure will eliminate interest rate risk associated with auction rate securities and provide a cost savings that will be used to further the School's programs. The programs of the School continue to provide educational and cultural resources to the Los Angeles community.		
Financing Structure:			
Type of Issue: Public offering of variable rate securities initially bearing interest at a SIFMA-based index rate.			
Tax Status: Tax-exempt 501(c)(3) bonds.			
Term: 26 years.			
Credit Enhancement: None.			
Credit Rating: Expected to be "A+" by Standard & Poor's based upon the financial strength of the School.			
Est. Sources of Funds:		Est. Uses of Funds:	
Tax Exempt Bond Proceeds	\$64,925,000	Refund 2006A Bonds	\$64,925,000
Equity	400,000	Costs of Issuance	400,000
TOTAL SOURCES	\$65,325,000	TOTAL USES	\$65,325,000
Financing Team:			
Bond Counsel: Orrick Herrington & Sutcliffe LLP			
Underwriters: Bank of America Merrill Lynch			
Underwriter's Counsel: Hawkins, Delafield & Wood LLP			
Trustee: Wells Fargo Bank, N.A.			
Staff Recommendation:			
Staff recommends approval of Resolution 11-21 authorizing the issuance of tax-exempt 501(c)(3) bonds in an amount not to exceed \$64,925,000 for The Colburn School.			

BACKGROUND AND HISTORY

The Colburn School, a qualified 501(c)(3) non-profit corporation, provides high-quality performing arts education to students of all ages (toddler to adult) and abilities (novice to advanced). The School is situated next to the Museum of Contemporary Art, across from the future site of The Broad Collection, and one block south of the Los Angeles Music Center, in downtown Los Angeles. The School's facilities include a 65,000-square foot facility on Grand Avenue and a 326,000-square foot facility connected to the original building on Olive Street. The School currently operates the following programs as described below:

- **School of Performing Arts Programs** are fee-based non-degree performing arts programs providing classes and lessons through its dance, drama, early childhood and music divisions.
- **The Academy Program**, established in 2010, is a non-degree program designed to provide comprehensive courses taught by world-renowned artists to highly gifted pre-college students focusing on careers in music.
- **The Conservatory of Music Program** offers a Bachelor of Music in Performance degree, and three specialized professional training performance programs offering a certificate or diploma.

The School receives ongoing annual contributions from the Colburn Music Fund (Fund), a private foundation established to hold certain investments in trust to support the School. The School uses its earnings on the endowment and distributions from the Fund to pay its operating expenses, which enables the application of tuition and other revenues to pay debt service on the bonds. A list of the current Board of Directors and principal executive officers is provided in Attachment A.

The School is accredited by the National Association of Schools of Music. It is a member of the National Guild of Community Schools of the Arts, Inc., the American Association of Collegiate Registrars and Admissions Officers, and the National Association for College Admission Counseling.

The School was approved to operate a degree program by the State of California Bureau for Private Postsecondary and Vocational Education (Bureau), and received licensing for the Conservatory of Music programs based upon the Bureau's review of the programs and site visit to the School. The Bureau ceased to exist on June 30, 2007, following the expiration of the Private Postsecondary and Vocational Education Reform Act. The School subsequently entered into a Voluntary Agreement with the Director of the California Department of Consumer Affairs, effective July 1, 2007, under which agreement the School is required to comply with California statutes, rules and regulations pertaining to private postsecondary educational institutions. The Voluntary Agreement provides the School with a legal method by which the institution may comply with applicable federal statutes, rules and regulations, and demonstrate to the United States Department of Education the legal authorization to operate a school under California law.

Previous I-Bank Financing

Since 2005, the I-Bank has issued several series of bonds to finance and refinance the construction, equipping and furnishing of improvements to the School’s facilities. Currently there are two series of bonds issued by the I-Bank which are outstanding as follows:

Series	Issue Date	Original Principal Amount	Outstanding Principal Amount
Series 2006A (2006 Bonds)	11/30/2006	132,925,000	64,925,000
Series 2008 (2008 Bonds)	12/9/2008	69,190,000	69,190,000
Totals:		\$202,115,000	\$134,115,000

PROJECT DESCRIPTION

The project (Project) involves refunding the outstanding California Infrastructure and Economic Development Bank Variable Rate Revenue Bonds, Series 2006A (2006 Bonds) issued as auction rate securities, the proceeds of which were used to finance or refinance the construction, equipping and furnishing of certain improvements to the School’s facilities, consisting of an approximately 384,000 square foot facility including a library, performance lab, rehearsal hall, studios, classrooms, practice rooms, a cafeteria, dormitory, outdoor plaza, parking facilities and related and appurtenant facilities (located at 201 South Olive Street, Los Angeles, California) and the renovation, furnishing and equipping of certain facilities within the School (located at 200 South Grand Avenue, Los Angeles, California) (collectively, the Prior Projects)(see Attachment B – Prior Projects Picture). The Prior Projects were completed in August 2007.

FINANCING STRUCTURE

The Colburn School requests the refunding of the outstanding 2006 Bonds and the issuance of tax-exempt 501(c)(3) bonds in an amount not to exceed \$64,925,000 (2011 Bonds). The 2011 Bonds will be issued as variable rate revenue bonds initially bearing interest at a SIFMA-based index rate. The 2011 Bonds will be issued pursuant to an indenture between the I-Bank and Wells Fargo Bank, N.A. as Trustee (Indenture), and a loan of the proceeds of the 2011 Bonds will be made through a loan agreement between the I-Bank and the School (Loan Agreement). The 2011 Bonds are expected to be rated “A+” by Standard & Poor’s based solely on the financial strength of the School. The 2008 Bonds will remain outstanding after the issuance of the 2011 Bonds.

In no event shall the 2011 Bonds constitute a pledge of the faith and credit of the State or any political corporation, subdivision or agency of the State, and neither the State nor any political corporation, subdivision or agency of the State shall be liable to make any appropriation for the repayment of the 2011 Bonds. The 2011 Bonds constitute a special obligation of the I-Bank, payable solely from revenues consisting primarily of loan repayments made by the School.

PUBLIC BENEFITS

The School anticipates the refunding will eliminate interest rate risk associated with auction rate securities and result in cost savings which will be used to further the School's programs. The exact amount of savings depends on future levels of variable (floating) rates. Thus, if the SIFMA rate averages 2%, savings would be expected to exceed \$800,000 per year. The programs of the School continue to provide educational and cultural resources to the Los Angeles community.

OTHER PROJECT DATA

PROJECT PERMIT STATUS	
Compliance with local land use and zoning? **	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO, Describe:
Local approvals and permits obtained (other than construction permit)? ***	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO, Describe:
TEFRA	
Date of TEFRA	None required.
Publications	N/A
Oral/Written Comments Received	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Issues?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Project meets Public Interest Criteria (per G.C. § 63046 and 63047(d)) <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> 1. Project is for a use in the State of California. 2. Borrower is capable of meeting the obligations incurred under the proposed Loan Agreement and tax agreement and, in particular as to its loan repayment obligations which secure the 2011 Bonds as a result of having met the requirements for a rating of at least A- on the 2011 Bonds, based on the financial strength of the Borrower to make loan repayments that will be used by the Borrower to pay the principal and interest on the 2011 Bonds. 3. Payments to be made by the Borrower to the I-Bank under the proposed financing agreements are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments. 4. The proposed financing is appropriate for the Project. 5. Borrower has represented that the facilities originally financed with the proceeds of 2006 Bonds were consistent with any existing local or regional comprehensive plans.
The Project meets the Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for I-Bank Staff by the Board: <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date:

**Compliance confirmed as part of the 2006 and 2008 Bonds approval.

***Approvals and permits confirmed as part of the 2006 and 2008 Bonds approval.

RECOMMENDATION

Staff recommends approval of Resolution 11-21 authorizing the issuance of tax-exempt 501(c)(3) bonds in an amount not to exceed \$64,925,000 for The Colburn School.

ATTACHMENT A - GOVERNANCE AND MANAGEMENT

Principal Executive Officers

Sel Kardan	President and Chief Executive Officer
Robert McAllister	Dean- School for the Performing Arts
Richard Beene	Dean- Conservatory of Music
Seth Weintraub	Chief Financial Officer and Treasurer
Patrick Morrow	Secretary

Board of Directors

Member	Business or Professional Affiliation
Attiyeh, Robert S.	<i>Chair- Development Committee, CFO, Amgen (retired)</i>
Avchen, Daniel	<i>Chairman and CEO, HGA</i>
Barry, David N.	<i>V P and General Counsel, Southern California Edison (retired)</i>
Baxter, Nancy Griffith	<i>Senior Philanthropic Investment Manager, Wells Fargo Bank</i>
Benson, Iona	<i>Civic Volunteer</i>
Boyett, Joan	<i>V. P. of Education, L.A. County Music Center (retired)</i>
Clement, Daniel	<i>Senior Resource Fellow, Community Partners</i>
Colburn, Richard W.	<i>Investor</i>
Colburn Høgel, Carol	<i>Pianist, Investor and Philanthropist</i>
Colburn Høgel, Catherine	<i>Physician</i>
Coulombe, Alice	<i>Chair- Academic Affairs Committee, Civic Volunteer</i>
Cuse, Christiane	<i>Civic Volunteer</i>
Diener, Jennifer F.	<i>Chair- Communications Committee, Civic Volunteer</i>
Domingo, Plácido	<i>General Director, L.A. Opera</i>
Edelman, Edmund D.	<i>Los Angeles County Supervisor (retired)</i>
Egelston, Robert B.	<i>Chair- Nominating Committee, Chairman, The Capital Group Companies (retired)</i>
Ellis, Bradley H.	<i>Partner, Sidley Austin LLP</i>
Grant, Richard A.	<i>Secretary/Treasurer, Dan Murphy Foundation</i>
Henry, Warner W.	<i>Owner & Chairman, The Henry Wine Group</i>
Kelman, Wendy	<i>Chair of the Board, Chairman, The Colburn School Board of Directors, Civic Volunteer</i>
Krieger, Eugene I.	<i>Vice Chairman and COO, Shamrock Holdings</i>
Leddy, Thomas D.	<i>Chair- Finance Committee, Partner, PricewaterhouseCoopers (retired)</i>
Lesser, Aliza	<i>Assistant Treasurer, Temple Israel (retired)</i>
Lewis, Robert	<i>Director, McKinsey and Co.</i>
Matt, Steven F.	<i>President, Matt Construction Corp.</i>
Mayman, Toby E.	<i>Executive Director, The Colburn School (retired)</i>
Pizarro, Pedro J.	<i>President, Edison Mission Group</i>
Read, Charles Churchill	<i>Attorney, Jones Day</i>
Ronus, Anne	<i>Board Member, Los Angeles Philharmonic</i>
Ryder, Beverly	<i>Chair- Audit Committee, Vice President of Community Involvement, Edison International & Southern CA Edison (retired)</i>
Solomon, Susan Keran	<i>Chair- Facilities Committee, Board Member, Friends of The Semel Institute for Neuroscience & Human Behavior, UCLA</i>
Wardle, Peter W.	<i>Partner, Gibson Dunn and Crutcher</i>

ATTACHMENT B - PRIOR PROJECTS PICTURE



The Colburn School's facilities, original (right) and newly completed (left - orange).