Ambac

Ambac-Insured Financing Helps Colburn Music School Embark on Ambitious Expansion

$132,925,000
California Infrastructure and Economic Development Bank (The Colburn School)
Variable Rate Revenue Bonds, Series 2006A and 2006B

For nearly 50 years, The Colburn School has served as a beacon of arts excellence in downtown Los Angeles. The school provides outstanding instruction and opportunities in music and the performing arts, and has an exceptional reputation as one of the top pre-collegiate performing programs in the U.S. Four years ago, the school embarked on an ambitious plan to create a highly selective, college-level Conservatory of Music. The plan included a major facility expansion financed with a $130 million bond issue backed by a bank letter of credit. Since that time, the Conservatory's world-renowned faculty, state-of-the-art facilities and prime location in downtown Los Angeles have already positioned Colburn as one of the premier college level music schools on the West Coast.

In 2006, Colburn sought to put a more cost-effective, long-term financing in place for this important phase of its evolution. At the same time, the specialized nature of the institution made underwriting a bond issue more challenging than traditional higher education issues. Colburn assembled a financing team that included Ambac and underwriter Banc of America Securities, a distinguished market leader in the non-profit sector. Ambac was selected for its higher education financing experience (including wraps for the Juilliard Music School in New York), in-depth modeling and analytics capabilities, and structuring expertise.

The financing team faced two major challenges. First, while the school enjoys a significant endowment and a strong balance sheet, the Conservatory operates as a tuition-free program, in accordance with the wishes of its primary benefactor, the late Richard Colburn. This presented obstacles, but extensive modeling demonstrated that other revenue sources generated an acceptable level of cash flow over time. However, the solid balance sheet was still the primary factor in making the financing viable.

The second challenge was that certain provisions of the tax law precluded the use of standard balance sheet covenants in the deal. This, together with a historically concentrated pool of investments dedicated to Colburn, required the team to specifically tailor a financing that satisfied legal requirements and ensured the maintenance of minimum liquidity levels for the diversified portion of its endowment, while at the same time preserving the school's operating flexibility for its unique programs.

The $133 million, 30-year bond financing was successfully issued in November 2006, enabling The Colburn School to secure a cost-effective and flexible, long-term financing. The bonds were rated triple-A by virtue of the Ambac guarantee.

Reid Tomlin
First Vice President
212 208 3378
rtomlin@ambac.com

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