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CAAL
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Agenda Item 4

May 12, 2017

MEMORANDUM

TO: Chair Terrye Seckinger, and Members, Committee on Academic Affairs and Licensing

FROM: John Lane, DMA, Director of Academic Affairs

Consideration of Request for Initial License (Change of Ownership)
Dream Center Foundation Acquisition of the Art Institute of Charleston and South University of Columbia
from Education Management Corporation (EDMC)

Summary

The Dream Center Foundation (DCF), a 501(c)3 tax-exempt, California non-profit entity, requests approval of an initial license to acquire and operate The Art Institute of Charleston and South University of Columbia (the Institutions), which are currently owned by Education Management Corporation (EDMC), a for-profit entity. There are no proposed changes to programs currently licensed to be offered at the Institutions. In addition, there are no proposed changes to the Institutions' facilities, student support services, resources, staff, or faculty. The parties signed an asset purchase agreement on Jan. 18, 2017, and executed a binding Amended and Restated Asset Purchase Agreement on Feb. 24, 2017. The acquisition is contingent upon the approvals by state regulatory agencies, accreditors, and the U.S. Department of Education. The anticipated date of implementation is July 1, 2017.

EDMC will remain in existence in order to support the orderly closure of Brown Mackie College and Art Institute campuses that are in the process of teaching out students. EDMC will also retain all liabilities that were in place prior to the acquisition, including liabilities that resulted from its November 2015 settlement with 39 state attorneys-general. EDMC will transition operational support services to Dream Center Education Holdings, LLC (DCEH) in order to provide uninterrupted services to students after closing of the transaction.

Background

In 1978, the Commission licensed Columbia Commercial College, which was eventually renamed Columbia Junior College (CJC). Columbia Commercial College was founded in 1935 and evolved to become an accredited degree-granting institution. South University, based in Savannah, GA, purchased CJC in 2001 and in 2002 merged CJC with

South University. The CJC campus was renamed to South University at this time. In 2003, John T. South III, the 100% shareholder of South University, LLC, sold the institution to EDMC.

South University is owned by South University, LLC, which through various intermediary companies is a subsidiary of EDMC. South University is governed by the South University Board of Trustees. As a branch of South University of Savannah, South University of Columbia holds accreditation from the Southern Association of Colleges and Schools Commission on Colleges.

The Commission approved initial licensure of The Art Institute of Charleston in 2006. The Art Institute of Charleston is a branch of The Art Institute of Atlanta; both are wholly owned subsidiaries of The Art Institutes International Inc., which is owned by EDMC. Both campuses hold accreditation from the Southern Association of Colleges and Schools Commission on Colleges.

Both of Institutions' parent campuses, The Art Institute of Atlanta and South University of Savannah, are exempt from authorization by the Georgia Nonpublic Postsecondary Education Commission.

The Dream Center Foundation is a non-profit, non-faith-based foundation that supports the work of the Dream Center, a non-profit, faith-based network of over 100 independent Dream Centers that provide services to the homeless, veterans, human trafficking victims, emancipated minors, and disadvantaged youth and adults. Such services include providing food, clothing, medical care, housing, training and education, and addiction counseling at no charge. DCF also supports other non-faith-based organizations whose missions align with that of the Foundation.

For the purposes of the acquisition transaction, the DCF has established a stand-alone organization, Dream Center Education Holdings, LLC, to purchase the institutions. DCF is the sole owner of DCEH, and as such, DCEH is treated as a non-profit for tax purposes. The four-fold mission of DCEH is:

1. **Accessible-** Giving every student *willing to make the required effort* the opportunity to achieve a **quality college education**.
2. **Affordable- Lowering net tuition and fees**, without sacrificing quality, so the focus is on *obtaining* an education, *not financing* an education.
3. **Relevant-** Equipping graduates with **relevant, real world skills** that lead to *meaningful employment*.
4. **Purposeful-** Instilling in graduates a *strong ethical moral compass* with a **passion to serve others**.

Funds for the acquisition are being provided to DCEH by DCF and Najafi Companies. DCEH will have a seven-member board of directors that is independent from DCF. Under the DCEH there will be education subsidiaries which include 1) The Art Institutes International, LLC, which will continue to operate The Art Institute of Atlanta, parent company of The Art Institute of Charleston, and 2) Dream Center South University, LLC, which will operate South University Savannah, LLC, which operates all South University campuses. The boards will remain unchanged for The Art Institutes International, LLC, the South University Board of Trustees, and their subsidiaries.

Staff has reviewed meeting minutes of the Institutions' boards of trustees and directors where the sale was approved, as well as letters of commitment, articles of organization, operating agreements, financial documentation, publications, student records documentation, institutional surety bonds, liability insurance, and agent permits.

The articles of organization for DCEH and its subsidiaries state that, "This Company may neither merge with, nor convert to, a for-profit entity." In addition, "In the event of dissolution or final liquidation of the Company, neither

the property of the Company nor proceeds thereof may be distributed or divided among the employees or officers of the Company or inure to the benefit of an individual.” Rather, the companies shall operate at all times as non-profit, charitable organizations for charitable, religious, or educational purposes. DCF proposes to turn the Institutions into community focused not-for-profit educational institutions that will provide low- or no-cost GED training, offer academic programs on-site and online, provide scholarships for graduates of Dream Centers, provide pathways and scholarships for higher education for its volunteers and interns, connect graduates to jobs through expanded job placement efforts, and redirect profits into each campus and through scholarships (<http://www.dreamcenter.org/about-us/foundation/>).

DCF projects that one year post-sale, the Institutions’ federal financial responsibility composite scores will improve from 1.9 to 2.3 (Art Institute of Atlanta). South University’s current composite score is 2.8. Federal financial responsibility composite scores range from -1.0 to 3.0, with any number 1.5 or higher reflecting financial responsibility. Both institutions project positive changes in net assets.

Recommendation

The staff recommends the Committee on Academic Affairs and Licensing commend favorably to the Commission an initial license for Dream Center Foundation to acquire and operate The Art Institute of Charleston and South University of Columbia. No state funds will be required or requested. Licensure is conditional upon approval by the Institutions’ accreditor and the U.S. Department of Education.