



TO: Higher Education Committee

FROM: John L. D'Agati *John L. D'Agati*

SUBJECT: Transfer of Degree-Confering Authority Based Upon a Change of Ownership or Control of School of Visual Arts, LLC (School of Visual Arts)

DATE: June 6, 2016

AUTHORIZATION(S): *Margaret E. Elin*

SUMMARY

Issue for Decision

Should the Board of Regents approve the transfer of degree-conferring authority based upon a change of ownership or control of School of Visual Arts, LLC (School of Visual Arts)?

Reason(s) for Consideration

Required by Regents Rules (8 NYCRR 3.58[e])

Proposed Handling

This item will come before the Higher Education Committee for a recommendation and then to the Full Board for action at its June 2016 meeting.

Procedural History

The School of Visual Arts, Inc. (SVA, Inc.) was founded as the Cartoonist and Illustrators School in 1947 and was incorporated in 1950. In 1956, the name was changed to the School of Visual Arts, Inc., and in 1972 the Board of Regents approved the institution as a degree-granting, proprietary (for-profit) institution. Background information about the School of Visual Arts is attached to this item as Appendix A.

Background Information

Applicable Statute and Regents Rule

Education Law §224(1)(a) and Regents Rule 3.58(e) each require the consent of the Board of Regents to a transfer of the degree-conferring authority of a proprietary college in New York State, through a change in ownership or control of the proprietary college. Regents Rule 3.58(a)(1) defines change of ownership or control as, “*merger, or consolidation with any corporation; sale, lease, exchange or other disposition of all or substantially all of the assets of the institution; and the transfer of a controlling interest (at least 51 percent) of the stock of a corporation.*”

Because the transaction concerning the School of the Visual Arts (as outlined below) will constitute a change of ownership or control of a proprietary college, as defined in Regents Rule 3.58(a), the consent of the Board of Regents to this transaction is required.

The Proposed Transaction

David and Anthony Rhodes are the sole shareholders of SVA, Inc., a proprietary college originally founded by their father. David Rhodes was named President of the institution in 1978 and continues in that role today. David and Anthony Rhodes are not in a position to transfer the College to a new generation of the Rhodes family. Rather than a sale of the College to another for-profit entity, and in order to provide for an orderly transition of ownership of the College, the Rhodes have proposed a transaction that, once completed, will put the College under the management of an entity that will be owned and controlled by a not-for-profit entity, the SVA Alumni Society, Inc., (“SVA Alumni”) which was incorporated in 1972 and is determined by the Internal Revenue Service (IRS) to be a Section 501(c)(3) tax-exempt organization and a public charity under Section 509(a)(1).

The transaction involves two steps:

1. As of June 1, 2016, all of the educational assets, including degree granting authority, were transferred from SVA, Inc. to a newly created limited liability corporation, SVA of New York, LLC. In exchange, SVA, Inc. received 100% of the membership interests of the LLC and is the sole member of the LLC. Because SVA, Inc., continues to be wholly owned by David and Anthony Rhodes, and continues to be a for-profit entity, the Department determined that this step did not constitute a change in the ownership or control of the College and did not require the consent of the Board of Regents.

Upon completion of this step, the Commissioner consented to the filing of articles of organization for SVA of New York, LLC, which included as one of its purposes the issuing and conferring of degrees as approved by the Board of Regents. The corporate name of SVA, Inc. was also changed to Chelgram Holding Corporation so that the corporate entity can remain a real estate holding corporation. At the same time, the certificate of incorporation of the SVA of New York, LLC was amended to

change the corporate name to School of Visual Arts, LLC (d.b.a. School of Visual Arts).

2. The second step, which is planned to be completed by September 1, 2016, is the transfer and sale of 100% of the LLC membership interests by Chelgram Holding Corporation (formerly SVA, Inc.) to SVA Alumni. While the degree granting authority will remain with the LLC, because SVA Alumni will assume control over the LLC when it purchases the membership interest in the LLC from Chelgram Holding Corporation, it is at this point that a change in ownership or control of the College will take place and therefore this step requires the consent of the Board of Regents.

When the transaction between Chelgram Holding Corporation and SVA Alumni closes, the nature of the College will essentially change from a for-profit institution (because Chelgram Holding Corporation, formerly SVA, Inc., was a for profit entity) to a not-for-profit institution when it is under the control of School of Visual Arts, LLC, with SVA Alumni (a not-for-profit entity) as the sole member of the LLC.

The School of Visual Arts after the Transaction

The goal is for a seamless transition for students and faculty at the College. The SVA Alumni Board will be expanded to include the members of the former SVA, Inc.'s Board of Trustees, which has experience governing and operating the degree-granting institution. David and Anthony Rhodes will continue to serve as President and Executive Vice President of the College under contracts with School of Visual Arts, LLC. The College will continue to offer all of its currently registered programs and all current faculty and staff will remain at the College. SVA Alumni is working with the College's accrediting agency, Middle States Commission on Higher Education, concerning the College's accreditation after the change in ownership, and with USDOE and the New York State Higher Education Services Corporation (HESC) concerning continued eligibility for federal and state student financial aid.

Recommendation

It is recommended that the Board of Regents take the following action at its June 2016 Board of Regents meeting:

VOTED: That contingent upon the transfer and sale of the membership interests of the School of Visual Arts, LLC from Chelgram Holding Corporation (formerly SVA, Inc.) to SVA Alumni Society, Inc. the Board of Regents consents to the transfer of degree conferring authority from the School of Visual Arts, LLC, with 100% membership interest owned by Chelgram Holding Corporation (formerly SVA, Inc.) to the School of Visual Arts, LLC, with 100% membership interest owned by SVA Alumni Society, Inc.

Timetable for Implementation

It is anticipated that the transfer and sale of the membership interests of the School of Visual Arts, LLC from Chelgram Holding Corporation (formerly SVA, Inc.) to SVA Alumni Society, Inc. will occur on or about September 1, 2016. The transfer of degree conferring authority for the School for the Visual Arts, LLC will take effect immediately upon the transfer and sale of the membership interests in School of Visual Arts, LLC, from Chelgram Holding Corporation to SVA Alumni Society, Inc.

The School of Visual Arts, Inc.

- The School of Visual Arts, (SVA, Inc.) is a proprietary (for-profit) degree granting institution, located in New York City, with offices in Seoul and Shanghai.
- SVA, Inc. was founded, as The Cartoonist and Illustrators School, by Silas H. Rhodes (current President David Rhodes' father) and Burne Hogarth in 1947. The School was incorporated in 1950. In 1956, the name was changed to the School of Visual Arts, Inc.
- In 1972, SVA, Inc. was granted degree granting status by the Board of Regents and in 1978 it became accredited by Middle States Commission on Higher Education.
- SVA, Inc. has a faculty of over 1,000 members.
- SVA, Inc. is currently governed by a Board of Directors consisting of eight (8) members.
- The current President is David Rhodes – he became President in 1978.
- Currently, SVA, Inc. has 3,600 undergraduate students enrolled in the following registered programs:
 - Advertising
 - Animation
 - Cartooning
 - Communication Arts
 - Computer Art, Computer Animation & Visual Effects
 - Design
 - Film
 - Fine Arts
 - Illustration
 - Interior Design
 - Photography and Video
 - Visual and Critical Studies
- Over 650 graduate students are enrolled in the following registered programs:
 - Art Education
 - Art Practice
 - Art Therapy
 - Art Writing
 - Branding
 - Computer Art
 - Critical Theory and the Arts
 - Curatorial Practice
 - Design
 - Design Criticism
 - Design for Social Innovation
 - Design Research, Writing and Criticism
 - Digital Photography
 - Directing
 - Fashion Photography
 - Fine Arts
 - Illustration as Visual Essay
 - Interaction Design
 - Photography, Video and Related Media
 - Products of Design
 - Social Documentary Film
 - Visual Narrative
- Retention rate: 82% of students who began their undergraduate studies in fall 2013 returned in fall 2014.
- Graduation rate: 66% for first time, full-time students, 71% for transfer students, 62% for students receiving Pell financial aid.
- Estimated undergraduate tuition and fees for academic year 2015-16: \$35,000
- FY 2012 3-Year Official Cohort Default Rate: 6.1% (which is below both the Federal default rate of 11.8% and New York State's default rate of 8.2%).