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Museums Learn to Love Debt

By SALLY BEATTY

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Now you can support a nonprofit institution and invest at the same time -- by buying bonds issued by an increasing number of cultural groups.

In December, the Holocaust Memorial Foundation of Illinois raised \$28.5 million through a bond offering to build a museum and education center in Skokie, Ill., where Nazis tried to march in the 1970s. In November, the Please Touch Museum in Philadelphia, where children are encouraged to handle the displays, sold \$60 million in bonds to help expand and move to a historic site. Also last year, the Telfair Museum of Art in Savannah, Ga., raised \$8 million through bonds to help pay for new facilities.

Bond sales by nonprofits aren't new -- the Art Institute of Chicago was a pioneer as far back as 1978, and there was a rush by big museums to issue bonds in the late 1990s. What's new is that the technique has spread to smaller groups.

One factor behind the trend is the migration onto arts boards of younger, financially sophisticated donors who are more willing to break with the debt-averse approach long common to nonprofits. Another is the growing expenses of many groups. "Pressure on budgets means you have to find much more efficient ways of financing," says Jim Fitzgerald, group head of municipal finance at KeyBanc Capital Markets. Also at issue: pressure on museums from other types of entertainment to freshen their offerings. "They can't just have dusty dioramas," says Susan Fitzgerald, who analyzes bonds issued by nonprofits at Moody's Investors Service.

For investors, nonprofit bonds can be attractive because, as with traditional municipal bonds, their interest payments generally aren't taxed. But some investors have been burned.

Denver's \$93 million Colorado's Ocean Journey aquarium defaulted on about \$57 million of revenue bonds in 2001, amid weak ticket sales. Bondholders received about 33 cents on the dollar, including money from the aquarium's sale to Landry's Restaurants, says Steven Hoort, a lawyer with Ropes & Gray of Boston, which represented a majority of the bondholders. (Landry's now operates it as the Downtown Aquarium.) In the mid-1980s, New York's Intrepid Sea, Air & Space Museum filed for bankruptcy, leaving bondholders with just 23 cents on the dollar.

Some nonprofits secure their bonds with bank letters of credit. That can help a group without large assets achieve an investment-grade bond rating -- potentially avoiding the stain and higher interest rate of a speculative-grade rating. In December, for instance, the Intrepid museum floated \$7.08 million in bonds, backed by a bank letter of credit, to help pay for operations during the renovation of its home, a former aircraft carrier. Standard & Poor's assigned the bonds a high investment-grade rating. The downside: Banks charge a fee for such backing.

But bonds -- because they require nonprofits to pay interest as well as the principal -- are no substitute for donations. Museums and arts groups "would much rather have a dollar given than a dollar loaned," says Josh Stern, a credit analyst at S&P.

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Real-Estate Booster

WHO GAVE IT: Nathan Collier, founder and owner of Collier Cos., a real-estate management, renovation and development concern in Gainesville, Fla.

HOW MUCH: \$1 million

WHO GOT IT: The Warrington College of Business Administration at the University of Florida, Gainesville

BY REQUEST: The money will create an endowment for the university's Master of Science in Real Estate program.

HOW IT HAPPENED: Mr. Collier, now 54, grew up in Gainesville. His father taught civil engineering at the university and served 18 years on the city council, instilling in the young Mr. Collier a sense of civic virtue, he says. Mr. Collier's great-uncle was Peter Collier, who founded Collier's Weekly magazine, published from 1888 to 1957, and his grandfather Robert Collier was a self-help author who in the 1920s published "The Secret of the Ages," which is referred to in the current bestselling self-help book "The Secret."

Mr. Collier attended UF at Gainesville, majoring in finance, and earned three degrees there. His interest in real estate began in his youth, when he helped run a property his father owned. In college, Mr. Collier formed a business to manage other people's property, and eventually formed his current company. He's a life member of



the university's foundation board and board member of its Center for Real Estate Studies. "Florida is real estate," he says. He believes the university will one day have one of the country's top real-estate programs, "but I wanted us to get there faster."

--Robert J. Hughes