



Student Union - Decentralization

Presentation by:
Financing & Treasury
December 4 & 11, 2007

Introductions

- Financing & Treasury (F&T)
 - Rosa H. Renaud
 - Angelique Sutanto
 - Maricel Singson
- Systemwide Financial Reporting (SFO)
 - Lily Wang
 - Sherry Pickering
 - Kathy Skara
 - Brian Lee
- Dominguez Hills Staff
 - Lisa Chavez
- Audience

Agenda

- Systemwide Revenue Bond Program
 - Participation in SRB
 - Flexibility with New Bond Indenture
 - Executive Order 994 Requirements
- Changes Affecting:
 - Student Unions
 - Campus' CFOs
 - Financing and Treasury
- SFO Accounting Changes
- Traditional Student Union Budget Review Process
- New Debt Service Coverage Ratio Form
- Construction Projects – A Summary of the Financing Process
- Reference Material – Reserve Planning & Other

Systemwide Revenue Bond Program (SRB)

- A pooled security debt program that provides greater security to bondholders and thus benefits the CSU by:
 - Providing lower interest rate cost
 - More efficient use of proceeds:
 - No Debt Service Reserve Requirement
 - Lower Cost of Issuance
 - Commercial paper program contributes to additional savings during a project's construction phase.

Systemwide Revenue Bond Program

- Bonds issued under the SRB program are secured by a gross revenue pledge of all established fees. Pooled security with:
 - Housing
 - Student Union
 - Parking
 - Health Center
 - Continuing Education

Systemwide Revenue Bond Program

- Also incorporates other Auxiliary Organizations into the debt program as the CSU issues new debt.
- Credit Rating Agencies have always “counted” Auxiliary Organizations as part of CSU debt.
- Under SRB, auxiliary organizations get a lower cost of borrowing than if they were to issue debt on their own.

SRB and Student Unions

- Under the SRB program, we have been able to issue bonds for student unions for:
 - New capital projects
 - Refunding existing “senior” bonds
 - Refunding existing SRB debt.

SRB and Student Unions

- The SRB bond indenture is more flexible in certain areas than prior bonds, for example:
 - No more “Return of Surplus Test” requirement which under Section 5.02 of the old bond resolutions prevented distribution of funds to operate the union facility until after setting reserves to cover the coming year’s bond interest and principal payments. The excess reserves were then identified as “Surplus”. (Note: there still is budget process required. Details to follow.)
 - Improves cash flow with a “pay-as-you-go” concept similar to other programs such as for Housing and Parking where revenue is accessible in the same fiscal year.
 - No bond reserve requirement.

SRB and Student Unions

- The first decentralization for the student unions occurred with Richard West's memo dated April 30, 2004. The decentralization became effective 2004/05 for certain unions. (See enclosure.)
- We saw this as an opportunity to decentralize student unions that were fully in SRB, that is, only those that had all the related bond debt in SRB or had no bonds outstanding.
- Those unions with only senior bonds or with a combination of senior bonds and SRB bonds were not eligible to be decentralized.
- With the 2007C SRB refinancing of bonds and with the maturity of senior union bonds, we are now in a position to complete the decentralization of all the student unions.

Executive Order 994

Financing & Debt Management Policy

- A CABO advisory committee was created to develop a financing and debt management policy. Over time, there have been other related task forces that have updated the executive order (previously was # 876). The purpose of the executive order is to:
 - Establish standards to maintain advantages of SRB including low financing costs.
 - Establish a better capital planning process.
 - Retain flexibility to do special priority projects.
 - Give campuses guidelines.

Executive Order 994

- The executive order is a good baseline for the decentralized student unions particularly because it parallels the new bond indenture requirements.
- A key benchmark that is defined in the policy to monitor the campus and program's financial position is:
 - Net Revenue Debt Service Coverage Ratio (DSCR). See Section 4 and Attachment A.
- Reserve Requirements. See Section 7.
- Note: Further work in the Revenue Management Program may effect Reserve strategies.

Executive Order 994 Critical Requirement - DSCR

- The Net Revenue Debt Service Coverage Ratio (DSCR) is computed using total gross revenue less operating expenses divided by debt service.
- For the unions this means:
 - Fee Revenue* + Interest Income – “Return of Surplus”** = Net Income
 - Net Income then is Divided by Annual Debt Service Amount.

*Note: Fee Revenue only includes the Student Body Center Fee and does not include revenue from Local Operations.

**Note: Return of Surplus is for expenses that are funded from the Student Body Center Fee.

Executive Order 994 Critical Requirement - DSCR

- It is important that a campus appropriately records revenues and expenditures (in FIRMs) to avoid errors in calculating the DSCR.
- Please make sure that “Return of Surplus” is recorded in FIRMS using a distinct Object Code (#660045).
- F&T uses FIRMs to compute all program’s DSCR.

Executive Order 994 – Critical Requirement - DSCR

- Policy Minimum DSCR Benchmarks are:
 - Systemwide: 1.45
 - Campus: 1.35
 - Program: 1.10 *
- * Note: if one campus' program is at 1.10 then other campus' programs must be higher than 1.35 to meet the campus' goal of 1.35.
- See Attachment A graph in E.O. 994.

Executive Order 994 Critical Requirement - Reserves

- Campuses are responsible for developing reserve policies that, at a minimum, address:
 - Major Maintenance and Repair/Capital Renovation and Upgrade
 - Working Capital
 - Capital Development for New Projects
 - Catastrophic Events.

Executive Order 994 Critical Requirement - Reserves

- Repair and Replacement Funds - Decentralized Student Unions are no longer required to set aside a specific amount however, student union budgets should identify transfers to the fund that will meet their future needs.
- Working Capital or Local Reserves – the Campus CFO is required to develop guidelines for the union.
- Reserves reference material is provided at the end.

Decentralization of the Student Union Program - Effects on Unions

- Unions are still under the same operating agreements with the campuses.
- The primary focal point for approvals and funding for operations and maintenance/repair will be directly with the campus CFO.
- The budget process will now be shaped from the direction received from the CFO.
- Receipt of funds for operations and maintenance/repair expenses will be quicker given the more direct accounting process established with the campus.
- Construction project review/approval process has not changed. It is a coordinated effort between the union, VP Admin/Finance and staff, CPDC, and F&T.

Decentralization of the Student Union Program - Effects on Unions

- Unions/campuses will no longer receive a detailed budget memo from F&T.
- The form of communication will now consist of three annual F&T memos for:
 - Centrally Paid Direct Program Costs
 - Centrally Paid Indirect Program Costs
 - Debt Service Coverage Ratio Analysis.

Centrally Paid Direct Program Costs

- Annual memo that identifies upcoming fiscal year transfers required for:
 - Debt Service (Please note that there no longer is a 15% reserve requirement).
 - State Treasurer's Office Bond Services Fee
 - Audit Fee
- The timing of the transfers is semi-annually.
- The first transfer on Sept. 1st is higher because it covers principal and interest due while the second transfer on Mar. 1st does not have a principal payment associated with it.

Centrally Paid Indirect Program Costs

- The memo related to these costs has already been issued to both decentralized and centralized student unions. The costs require a quarterly transfer.
- Indirect costs consist of:
 - State Prorata costs
 - Chancellor's Office costs
- For most unions, the State Prorata costs are minimal and consists of administrative costs. However, in a few cases, if the union's employees are "State" employees then the State Prorata charge will also cover health benefit costs which can be significant (about 85% of the costs).

Centrally Paid Indirect Program Costs

- The administrative State Prorata charges and the Chancellor's Office charges are distributed to campuses and programs based on classifying campuses into two basic categories by revenue:
 - Large – which gets 75% of the costs;
 - Medium/Small – which gets 25% of the costs.

Decentralization of Student Unions - Effects to the Campus' CFO

- The CFO is responsible for ensuring that “funds are available to make payment to debt service obligations and program reserves, and relevant State and Chancellor’s Office overhead expenditures.”
- The CFO is responsible for the review and oversight of an annual budget package received from the union.
- The CFO will monitor the union’s performance related to the Net Revenue Debt Service Coverage Ratio (DSCR) and Reserve requirements per E.O. 994.

Decentralization of Student Unions - Effects to the Campus' CFO

- The CFO must assure that the student union fee revenues are deposited in the Trust Fund and invested through the Chancellor's Office process.
- The CFO is responsible for the distribution of funds to the auxiliary organization only after reviewing and approving the union budget and “at such times that the operating agreement and lease of the auxiliary organization is in effect and not expired.”

Decentralization of Student Unions - Effects to the Campus' CFO

- The CFO must make “prudent” decisions as to how much is distributed annually to the union’s auxiliary organization. The tool to achieve this is the continued use of the Student Union Budget Process.
- See R. West’s memo dated April 30, 2004, particularly Attachment B.

Decentralization of Student Unions - Effects to Financing and Treasury

- F&T will monitor decentralized student unions on a global basis given the new DSCR form.
- F&T will provide campuses with an annual indirect and direct memos in the Spring showing transfers that are required to pay for debt service and overhead expenses.
- F&T continues to be responsible for the approval of capital/construction projects. (See R. West memo, Att.B, paragraph 7).
- F&T continues to be a resource for all campuses and unions.



Major Accounting Changes for Decentralized Student Unions

Presentation by:
Systemwide Financial Operations
December 4 & 11, 2007

Transition to New Funds from Decentralization

SCO/CSU Funds	Revenue Fund	Repair & Maintenance Fund	Reserve for Construction Fund	Interest & Redemption Fund - CO Only	Construction Fund
Old	0580.265	0575.204		0578.244	0576.224
New	0948.534	0948.535	0948.536	0578.244	0576.224

Spending Down the Remitted Balance

- Campuses will have a remaining balance in the “old” funds that will need to be liquidated.
- Effective immediately, all collections should be deposited in Wells Fargo and accounted for in the “new” funds.
- All 2007/08 funding has been provided to the campuses, so no further expenditures for this purpose are anticipated. Should the occasion arise that additional program moneys are needed for 2007/08, please contact F&T.

Fiscal Year	2007/08		2008/09		2009/10	
SCO.CSU Fund	0580.265	0948.534	0580.265	0948.534	0580.265	0948.534
Revenues	No, after 11/1/2007.	Yes, after 11/1/2007.	No	Yes	No	Yes
Expenses	No. 2007/08 Funding was provided via Chancellor's Office check.	No.	Yes.*	Yes.*	Yes.*	Yes.*

*As long as a remaining balance exists in Fund 0580 at the State Controller's Office for this program, that balance should be used first for all expenditures.

Summary of Types of Transactions

	Centralized	Decentralized
Fee Revenue Remitted to:	0580 (SCO)	0948 (Wells Fargo) – Campuses may deposit fees collected after 11/1/2007 to the Trust fund recorded in CSU fund 534
Systemwide Costs Transferred from:	0580 to CO 0580	0948 to CO 0948
Repair & Maintenance Transferred from:	0580 to 0575 (AO needed)	0948 to 0948
Dormitory Construction Transferred from:	0580 to 0576 (AO needed)	0948 to 0576 (AO needed)
Debt Services Payments Paid from:	0580 to 0578	0948 to CO 0948 to 0578

Centralized	Decentralized
<ul style="list-style-type: none"> • Campuses are required to submit operating budgets to the Financing and Treasury department for review and approval. • Financing and Treasury notifies Systemwide Financial Operations to issue a check for funding student union operations. • Systemwide Financial Operations issues the check to the student union. 	<ul style="list-style-type: none"> • Each campus CFO is responsible for review and oversight of an annual budget package submitted by the student union director. • The campus CFO will notify the campus accounting department to issue a check for funding its student union operations. • The campus' accounting department issues the check to its student union.

Centralized	Decentralized
<ul style="list-style-type: none"> • Campuses remit all their “student body center fee” revenue to State Controller’s Office (SCO) revenue code 299100-other revenue. • The SCO will record the remittance as a debit to cash and a credit to the campus’ revenue account. • No cross posting occurs. • Systemwide Financial Operations (SFO) functions as a liaison between the State Controller’s Office and the campuses by managing the cash activity. 	<ul style="list-style-type: none"> • Campuses deposit their “student body center fee” to Wells Fargo Bank (SCO Fund 0948 – CSU fund 534). • The campus will record the deposit as a debit to investment (FIRMS Object Code 108090) and a credit to the revenue account (Object Code 504008).

Centralized	Decentralized
<ul style="list-style-type: none"> • All funds are invested in a Surplus Money Investment Fund (SMIF) at the State Treasurer's Office. • SMIF earnings are distributed to campuses quarterly via a Transfer Request. • SCO will transfer the SMIF earning to the campus' SMIF account 250300; however, no cross posting will occur to give the campus the spending authority over the funds. • Campuses are notified via a Systemwide Financial Operations' Accounting Department Notice of Accounting Transaction (ADNOAT). 	<ul style="list-style-type: none"> • All new revenue collections are invested in SWIFT. • SWIFT earnings are distributed to campuses quarterly via a Cash Posting Order (CPO) and will be recorded in FIRMS Object Code 508001. • Residual SMIF interest earnings will be distributed to campuses quarterly via CPO and will be recorded in FIRMS Object Code 507001.

Centralized	Decentralized
<ul style="list-style-type: none"> • Systemwide incurs expenses on behalf of each campus' student union program. • Systemwide Financial Operations prepares a schedule of the expenses incurred. • The campus CFO is responsible for ensuring that the funds are available to cover the annual PFA. • An annual PFA is submitted to the SCO for recovering of costs associated with the student union bond program. • An allocation order is needed. • Transfers to funds 0575, 0576 & 0578 are included as part of the PFA, as well as return of surplus. 	<ul style="list-style-type: none"> • Systemwide incurs expenses on behalf of each campus' student union program. • Semi-annual direct charges include Debt Service, State Treasurer's Prorata and Audit fees. Quarterly indirect charges are State Prorata and Chancellor's Office charges. • Financing and Treasury will issue a Budget memorandum annually for the centrally paid Direct & Indirect costs. • The campus CFO is responsible for ensuring that the funds are available to cover the quarterly CPO. • Transfer to fund 0578 is included in the semi-annual Direct Charges CPO. Transfers to fund 0576 will be handled individually as they arise.

Centralized	Decentralized
<ul style="list-style-type: none"> • Campuses request a transfer and allocation order from the Financing and Treasury department. • Financing and Treasury will submit a formal request to Systemwide Financial Operations and Systemwide Budget. • SFO will perform the transfer and pass it to the campus through the PFA process described in previous slide for centrally paid expenses. • An allocation order is needed because transfers are made through the Chancellor’s Office agency with no “automatic cross posting” to the campus agency’s expenditure account. 	<ul style="list-style-type: none"> • Union program will request approval from campus CFO for release of project funds. • Campuses will perform the transfer directly through its ledger using transfer in and transfer out accounts. • No allocation order is needed since transfers are now made at the campus ledgers.

Centralized	Decentralized
<ul style="list-style-type: none"> • Campuses request a transfer and allocation order from the Financing and Treasury department. • Financing and Treasury will submit a formal request to Systemwide Financial Operations and Systemwide Budget. • SFO will perform the transfer and pass it to the campus through the PFA process described in previous slide for centrally paid expenses. • Allocation order is issued after the PFA. 	<ul style="list-style-type: none"> • Campuses request a transfer and allocation order from the Financing and Treasury department. • Financing and Treasury will submit a formal request to Systemwide Financial Operations and Systemwide Budget. • SFO will submit a CPO to execute the transfer from the campus' SWIFT balance for the disbursement to CO's agency-campus' project in fund 0576 DCF. • Allocation order is issued after the CPO.

Recap of Operating Activity and the Fund it is Occurring In

Fiscal Year	2007/08		2008/09		2009/10	
SCO.CSU Fund	0580.265	0948.534	0580.265	0948.534	0580.265	0948.534
Fee Collections	No, after 11/1/2007.	Yes, after 11/1/2007.	No	Yes	No	Yes
Program Funding	No. 2007/08 Funding was provided via Chancellor's Office check.	No.	Yes.*	Yes.*	Yes.*	Yes.*
SMIF Interest	No.	Yes.	No.	Yes	No.	Yes.
Semiannual Systemwide Direct Charges - Including Debt Service	Yes.*	Yes.*	Yes.*	Yes.*	Yes.*	Yes.*
Quarterly Systemwide Indirect Charges	Yes.*	Yes.*	Yes.*	Yes.*	Yes.*	Yes.*

*As long as a remaining balance exists in Fund 0580 at the State Controller's Office for this program, that balance should be used first for all expenditures.

Current Situation: Centralized Student Unions

	CSU FUND	SCO FUND	Tab run Cash	SCO BBA	FBC
Campus	265	0580-xxx	\$8.8M	\$462	\$6.9M
Campus	204	0575-xxx	\$2.1M	\$1.1M	\$1.5M

Fund 0580-xxx and 0575-xxx

- Cash \neq BBA \neq FBC

CO Accounting Action Required

Step 1: Allocation Order

Allocation Order

			a	b	a-b
	CSU FUND	SCO FUND	Tab Run Cash	SCO Approp. Bal. 6/30/08	Difference
Campus	265	0580-xxx	\$8.8M	\$462	\$8.8M
Campus	204	0575-xxx	\$2.1M	\$1.1M	\$1.0M

Step 2: Journal Entry

Campus Journal entry:

DR FBC 305022

CR TBD

To adjust FBC in fund 0575 and 0580

CO Journal entry:

DR TBD

CR FBC (305022)

To adjust FBC in fund 0575 and 0580

After Allocation Order is Issued and Appropriate Journal Entry is Made

	CSU FUND	SCO FUND	Tab run Cash	SCO BBA	FBC
Campus	265	0580-xxx	\$8.8M	\$8.8M	\$8.8M
Campus	204	0575-xxx	\$2.1M	\$2.1M	\$2.1M

Fund 0580-xxx and 0575-xxx

- Cash = BBA = FBC

Memorandum to SCO

- We need your assistance in decentralizing the student union programs that are being financed under the Systemwide Revenue Bond Program. Effective July 1, 2008, please assure the subfunds identified on the Attachment for the Dormitory Revenue Fund and the Dormitory Maintenance and Repair Fund are properly setup to automatically cross-post.
- Campus remittances recorded to 299100 “Other Operating Revenue and SMIF interest earnings transferred to a campus’ revenue account 250300 “Income from SMIF” should cross-post to their agency’s expenditure “D” account.
- The automatic cross posting will give campuses the authority to spend these funds without the need of an allocation order from the Chancellor’s Office.

Chancellor's Office Contacts

- **Kathy Skara (562) 951-4624**
Revenue Bonds Supervisor
- **Brian Lee (562) 951-4399**
Lead Revenue Bond Accountant
- **Bill Pittman (562) 951-4612**
Lead Construction Accountant

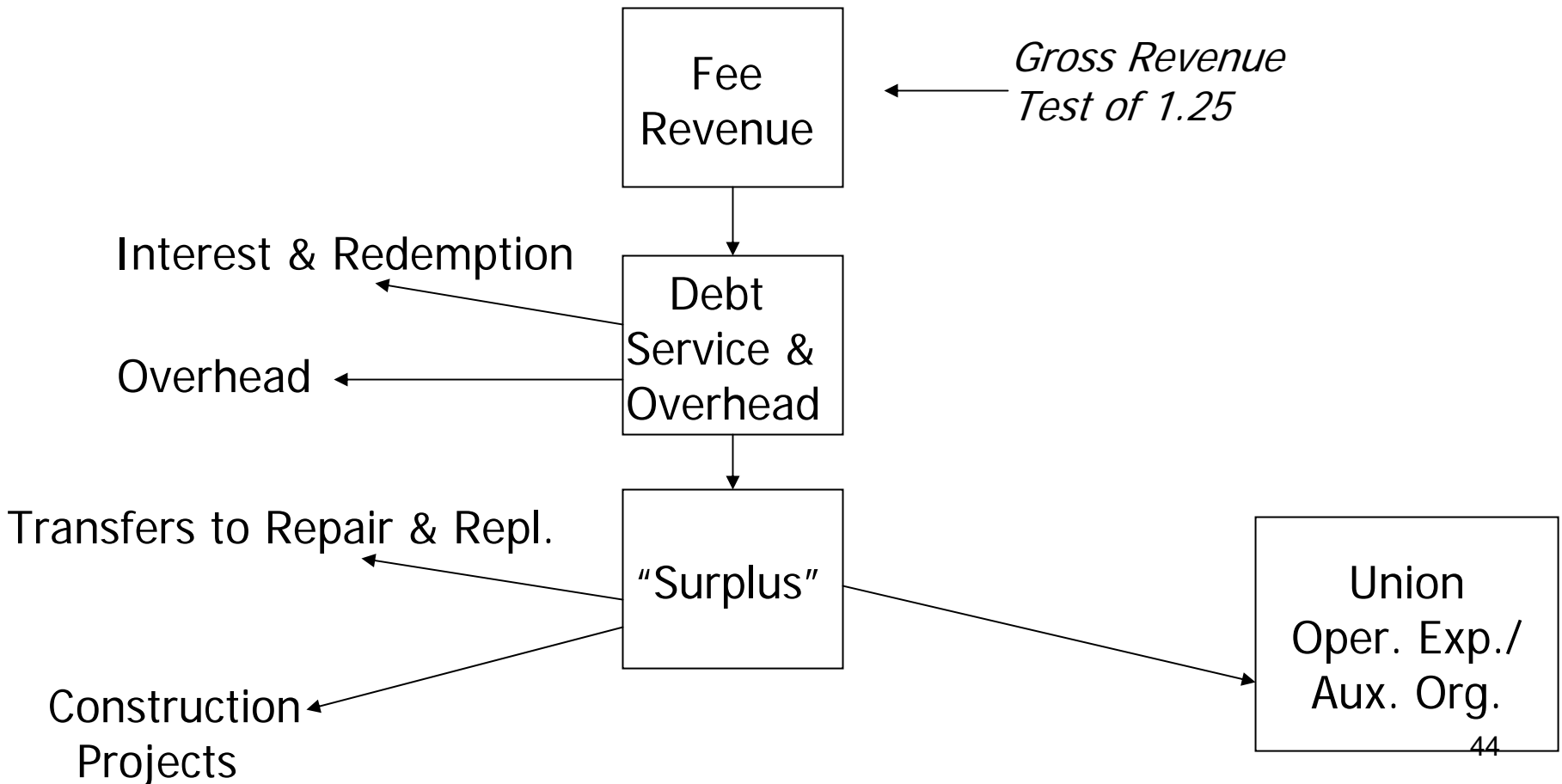
Financing and Treasury

Traditional Student Union Budget Review Process

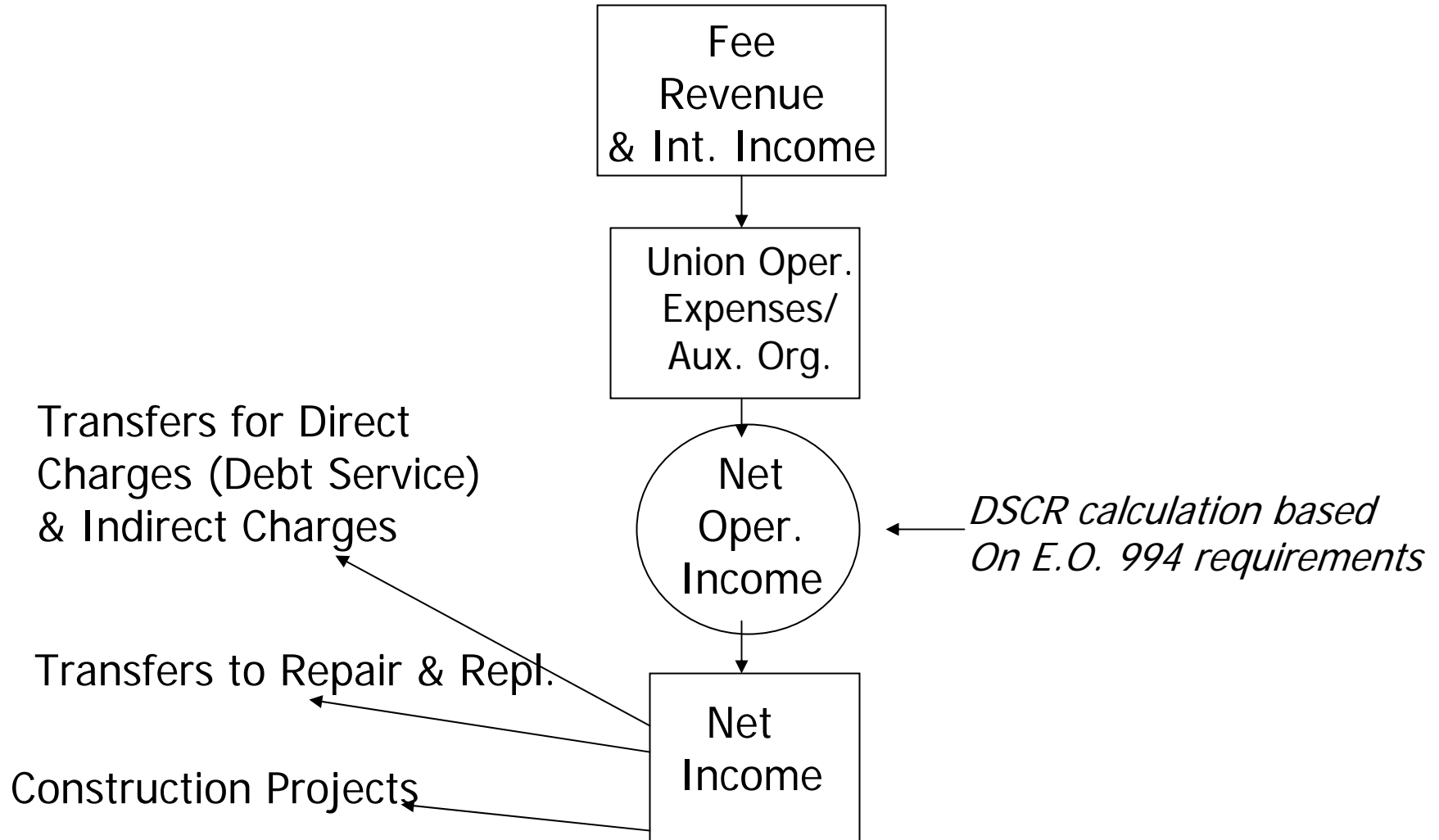
Student Union Budget Forms

- Review of Student Union Budget Forms.
- Campuses have flexibility to modify schedules to fit their needs.
- However, for unions considering capital construction projects, F&T recommends maintaining the same format for consistency but modifying it so that it shows the DSCR per year on Schedule 1.
- Additional schedules are always welcomed.

Senior Bonds - Student Unions Flow of Funds – “Old Method” based on Previous Senior Bond Resolutions



Decentralized Student Unions - Flow of Funds



F&T Student Union Budget Analysis Sheet

- Confirm that “actuals” trace to audited DRF financial statements;
- Confirm that “actuals” trace to auxiliary audited financial statements;
- Confirm that budget uses FT coded memo data;
- Verify budget accurately adds/subtracts data.
- Review budget to actuals trends;
- Verify operating agreements and leases are current;
- Review current and future fee levels;
- Review capital expenditures are within minor capital outlay guidelines;
- Review financial plan vs. approved Major capital outlay plan;
- Verify compliance with key bond covenants (i.e. Fee Revenue to Debt; Return of Surplus test; Requirements for Interest and Redemption Fund balances);
NOTE: Would be modified for Decentralized Student Unions.
- Confirm that working capital levels at local level are within Chancellor’s Office policy limits;
- Comments:

Student Union Budget Analysis – Key Reviews

- Schedule 1 – Cash Flow and Operation Projections:
 - This Schedule combines DRF Revenue Fund (& Trust Fund) and Auxiliary Org./Local Funds
 - We review trends of Revenue Fees; Fund Balances; Operating Expenses, ...
 - Check reasonableness of assumptions for Operating Revenue; Operating Expenses and all Transfers.
 - Verify that Capital/Construction project has an approved financial plan and is incorporated into the financing and CPDC processes.

STUDENT UNION CASH FLOW AND OPERATING PROJECTION

CAMPUS

	2005/06 Audited	2006/07 Estimated	Budget Year 2007/08 Proposed	2008/09 Projected
REVENUE FUND				
1. PRIOR YEAR FUND BALANCE				
2. REVENUE FROM FEES				
3. INT. INC. FROM REVENUE FUND				
4. DHUD SUBSIDY GRANT PAYMENT				
5. SUB-TOTAL (Lines 1 thru 4)				
LESS:				
6. ADJUSTMENTS & RETURN TO OP'S				
7. NET TRANS. TO INT. & REDEMP.T:				
8. TRANSFER TO REP & REPL.				
9. GENERAL OVERHEAD EXPENSE				
10. TRANSFER TO CONSTRUCTION FUND PROJECT				
11. SUB-TOTAL (Lines 6 thru 10)				
12. ENDING FUND BALANCE (line 5 less line 11)				
CAMPUS OPERATIONS				
13. RET. OF SURPLUS REVENUE FUNDS				
14. INCOME FROM OPERATIONS				
15. INT. INCOME /LOCAL FUNDS				
16. SUB-TOTAL (Lines 13 thru 15)				
LESS:				
17. OPERATING EXP & EQUIP.				
18. SALARIES & WAGES				
19. STAFF BENEFITS				
20. TOTAL EXPENDITURES				
21. NET FROM OPERATIONS (Line 16 less line 20)				
ADD OR DEDUCT				
22. CAPITAL EQUIPMENT & RELATED EXPENSES				
23. DEPRECIATION				
24. PRIOR YEAR ADJUSTMENTS				
25. BEGINNING FUND BALANCE				
26. ENDING FUND BALANCE (Line 21 thru 25)				
27. YEAR END WORKING CAPITAL	NOT APPLICABLE		NOT APPLICABLE	NOT APPLICABLE

FOOTNOTES: MUST BE FILLED OUT

- INTEREST INCOME FROM REVENUE FUND, ASSUMPTIONS:
- INCOME FROM OPERATIONS, ASSUMPTIONS:
- INTEREST INCOME FROM LOCAL INVESTMENTS, ASSUMPTIONS:

Student Union Budget Analysis – Key Reviews

- Schedule 2 – Working Capital and Contingency Reserve
Computation:
 - Verify accuracy of calculation and traceability to Schedule 1.
 - Verify that if the auxiliary organization has excess Working Capital then a decrease in the coming year's Net from Operations (line 21) is identified to bring it back in line. (This will thus decrease the Return of Surplus amount in the budget year.)
 - We also compare with Financial Statements using the calculation of:
 - Working Capital = Current Assets – Current Liabilities
 - Note: for Decentralized Student Unions the Campus' CFO may develop own policy.

WORKING CAPITAL AND CONTINGENCY RESERVE COMPUTATION (1)

A.	2007/08 Total Expenditures (Line 20).....	\$	(2)
B.	Reserve Factor.....	x .35	
C.	Computed Maximum WC Reserve.....		
D.	Add one half of 2007/08 proposed Capital Equipment & Related Expenditures (Line 22).....		
E.	SUBTOTAL (Computed Max. Need).....		
F.	Estimated 2006/07 Working Capital (Line 27).....		
G.	Enter difference between Line E and F.....		(3)

Notes:

- (1) This form should be completed and submitted with the budget package.
- (2) Line number references are to Schedule 1, Student Union Cash Flow and Operating Projection.
- (3) The Net (Line 21) for 2006/07 may not exceed the amount entered on Line G or H. Adjust 2007/08 Return of Surplus (Line 13) accordingly.

Student Union Budget Analysis – Key Reviews

- Schedule 3 – Fee Revenue Summary:
 - Confirm that Actual Revenues tie with Audited Financial Statements.
 - Identify a fee increase or decrease and research as needed. F&T and Campus' CFO have responsibility to assure that fees are at sufficiently high levels to meet debt obligations and E.O. 994 requirements.
 - Confirm traceability to Schedule 1.
 - Check reasonableness of the enrollment projection.

FEE REVENUE SUMMARY

FISCAL YEAR	ANNUAL F.T. ENRL.	F.T. FEE	SUB-TOTAL	P.T. FEE	SUB-TOTAL	SUM. ENRL.	SUM. FEE	SUB-TOTAL	TOTAL REV.	AUDIT REV.
ACTUAL 2004/05										
ACTUAL 2005/06										
ESTIMATED 2006/07										
PROJECTED 2007/08										
PROJECTED 2008/09										

Student Union Budget Analysis – Key Reviews

- Schedule 4 – Capital Equipment and Related Expenses:
 - Review reasonableness of project descriptions.
 - Identify large projects that need to be funded by the Repair & Replacement Fund in order to assure that the State procurement process is followed.
 - Confirm traceability to Schedule 1.

SCHEDULE 4

CAPITAL EQUIPMENT AND RELATED EXPENSES
(\$1,000 or more only)

DESCRIPTION OF PROJECT	FISCAL YEAR	\$(AMOUNT)
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
TOTAL (Sched 1, Line 22)		<u> </u>

Student Union Budget Analysis – Key Reviews

- Schedule 5 – Summary of Key Bond Covenant Test:
 - The old format is Not Applicable to the new SRB bond indenture.
 - For Senior Bonds: we would review per the requirements of Section 5.02 of the bond resolution. We reviewed trends of Uncommitted Facility Bond Fund Reserve levels and confirm that levels were not negative. We adjusted the budget accordingly to prevent covenant default.
 - We confirmed traceability to Schedule 1.

**SCHEDULE 5: SUMMARY OF KEY BOND COVENANT TEST
(SECTION 5.2 SENIOR BOND RESOLUTION)**

As of 6/30/06

<u>ESTIMATED REVENUE FUND BALANCE</u>	<u>PLUS ESTIMATED I&R FUND BALANCE</u>	<u>PLUS DHUD SUBSIDY</u>	<u>LESS I&R REQUIREMENT FOR R. OF S. TEST</u>	<u>LESS BOND RESERVE REQUIREMENT</u>	<u>EQUALS "SURPLUS" REVENUE</u>	<u>VERSUS 2004/05 RETURN OF SURPLUS FOR OPERATIONS</u>	<u>EQUALS UNCOMMITTED/ FACILITY BOND FUND RESERVE</u>
\$	\$	\$	\$	\$	\$	\$	\$

Parallel to Systemwide Revenue Bond Idea:

As of 6/30/07

<u>ESTIMATED REVENUE FUND BALANCE</u>	<u>PLUS 04/05 FEES</u>	<u>LESS 04/05 DEBT SERVICE</u>	<u>LESS 04/05 I&R RESERVE</u>	<u>EQUALS "SURPLUS"</u>	<u>LESS 04/05 RETURN OF SURPLUS</u>	<u>EQUALS UNCOMMITTED RESERVE</u>
\$	\$	\$	\$	\$	\$	\$

New Debt Service Coverage Ratio Form

- F&T will request from campuses to submit this summary form for each of the pledged programs.
- The decentralized student union program is the first segment that we are requesting feedback.
- Target for receipt of information: tentatively set for April 30th. The CFO will be requested to respond based on interchange with Student Union administration.
- F&T will verify actuals and check the reasonableness of projections. F&T will enclose comments in the following year's request for DSCR form. Should there be big issues then F&T will contact the campus asap.

Program Budget Summary Form - Debt Service Coverage Ratio (DSCR) Analysis

Campus: _____
Program: Student Union

	Prior Year Actuals 2006/07	Current Year Budget 2007/08	Projected 2008/09
Revenue from Fees	_____	_____	_____
Interest Income	_____	_____	_____
Total Revenues	_____	_____	_____
Operating Expense (1)	_____	_____	_____
Net Operating Income	_____	_____	_____
Debt Service	_____	_____	_____
DSCR	_____	_____	_____
Transfers & Other Expenses:			
Net Transfers to Interest & Redemption	_____	_____	_____
Transfers to Repair & Replacement	_____	_____	_____
General Overhead Expense	_____	_____	_____
Transfers to Construction Fund	_____	_____	_____
Other	_____	_____	_____
Total Transfers & Other Expenses	_____	_____	_____
Net Income	_____	_____	_____

Prepared by: Name: _____
Title: _____
Date: _____

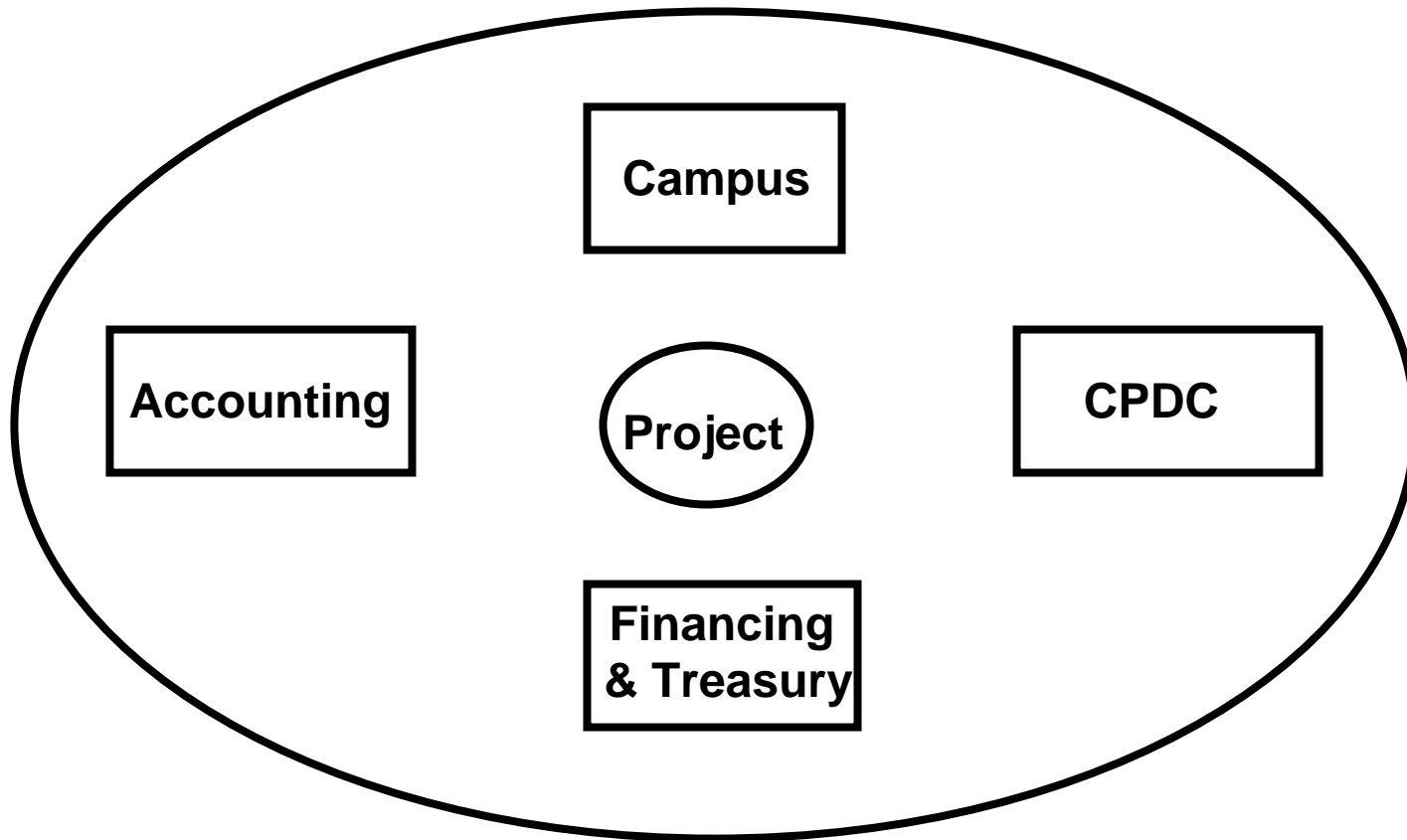
CFO Approval: Name: _____
Title: _____
Date: _____

Financing and Treasury Receipt of Info.: Name: _____
Title: _____
Date: _____

Note: (1) For student unions, operating expenses are only those directly supported by student fees.

Construction Projects – A Summary of the Financing Process

Construction Project Partners



Construction Projects Financing Process

- F&T approval of eligibility to finance project occurs at multiple times throughout the CPDC process and project phases:
 - Board of Trustees' Approval of Project Concept
 - Nonstate Capital Outlay Program (Sept.)
 - Amendment to the Nonstate Capital Outlay Program (throughout the year).
 - Board of Trustees' Approval of Schematics
 - Board of Trustees' Approval of Financing (with Final Construction Bids Received)
- CPDC depends on F&T to approve financials related to the project prior to project moving forward in phases. F&T depends on CPDC to approve the project budgets. Both F&T and CPDC depend on the campus CFO to approve a project concept, budget, and financial plans.

Construction Projects Budgets & Financing Estimates

- As a project goes through various stages and time, the project budget changes (generally increases). This is reflected on the Project Budget Form (CPDC 2-7).
 - F&T provides the campus administration and program estimated debt service schedules at each of the stages.*
 - F&T can also provide “what-if” scenarios based on different project assumptions.*
- * *Please allow a 2-3 day lead time to get debt schedules.*

Construction Projects Budgets & Financing Estimates

- F&T needs the following four data elements to provide estimated debt service schedules:
 - (1) Project Grand Total Estimated Budget Amount
 - (2) Campus program contribution
 - (3) Construction Start Date (month/year)
 - (4) Construction End Date (month/year)
- F&T will provide this information to the CSU financial advisor who will generate the estimated debt service schedules. *This is an iterative process as the project budget & assumptions change over time.*

Construction Projects Budgets & Financing Estimates

- Aside from the project costs, the financing covers other costs related to the financing:
 - Capitalized Interest – interest obligation during the construction period of the project.
 - Issuance Costs – related to bond counsel, State Treasurer’s Office, Attorney General’s Office, rating agencies, printing, etc.
 - Bond Discount – underwriters’ fees.
 - Bond Insurance – by purchasing this, the bonds get a lower interest rate.

Construction Projects Financial Plan Components

- “Income Statement” (as shown in Schedule 1) identifying two years actuals and ten years of projections with DSCR noted for each year.
- Documentation for fee increases and referendum.
- Project Budget (CPDC 2-7 form).
- Monthly cash flow spend-down projection.
- Project Timeline.

Construction Projects Financing

- The Board of Trustees must first* approve the financing of the project before F&T can issue debt instruments:
 - Commercial Paper (CP) – short term financing which typically is used during the construction project period and is accessed by campuses by allocation orders. The funding may be for part of the project but given the BOT approval of the whole financing, the campus has the authority to award the whole construction contract. The interest rate on CP is generally lower than bonds.
 - Bonds – long term financing which is issued about once a year for all projects in CP and for other approved projects. Some projects may be funded just by using bonds. It depends on the timing of the SRB bond sale.
- * Note: financing funds are not available for Planning and Working drawing costs. These costs must be paid by program or campus resources and can later be reimbursed with financings if certain F&T documents are in place first.

Construction Projects Financing

- The Board of Trustees financing approval is based on the project having construction bids in (or the equivalent for design-build projects). The key is to have the final total project amount identified in the BOT agenda item.
- Project timelines should be planned so that bids are received about 6 weeks prior to the BOT meeting date in order to incorporate into the agenda item and legal documents.

Construction Projects Financing

- An Advising Memorandum (AM) is created by F&T and is sent to the campus VP of Finance and Administration prior to receiving funds from either Commercial Paper or Bonds.
- The AM outlines the importance of tracking the timing of the construction expenditures to meet Tax Arbitrage Spend-down requirements.
- Cash Flows are required to be sent to F&T for the project.

Tax Arbitrage Spend-Down Requirements

- The timing of the spend-down requirements is tied to each financing source.
- Generally, for most projects the requirements are:
 - Spend at least 10% within 6 months;
 - Spend at least 45% within 12 months;
 - Spend at least 75% within 18 months;
 - Spend 100% within 24 months.
- *Note: Encumbrances do not count. Tax analysis is based on SCO tab runs showing actual expenditures hitting the account.*

Tax Arbitrage Spend-Down Requirements Strategy

- In cases where a project has been funded by Commercial Paper, then the CP proceeds must be spent first.
- Then Bond proceeds are spent.
- At the end, the pending program funds should be spent.
- This strategy reduces the likelihood of having to pay the IRS extra interest earnings (or “arbitrage”) related to the project. If the project has to pay an arbitrage rebate to the IRS, then it is a lost opportunity of use of funds for the campus.
 - Note: F&T sizes the debt that does not rely on arbitrage earnings.
- It is beneficial to close out construction projects accounts as soon as possible. Any remaining funds derived by financing proceeds will go to pay the program’s upcoming debt obligations.

Questions & Answers

If time permits we can review Reserve Planning Reference Material that is Enclosed.

Thanks for your attendance!

Reference Material

- Reserve Planning
- Executive Order 994, Financing and Debt Management Policy
- Richard West's Memo dated, April 30, 2004, "Student Union Decentralization – Available for Eligible Campuses".
- Example of Estimated Debt Service Schedules.

Reserve Planning

- Per Executive Order 994 (Section 7), each campus has a requirement to formally document reserve policies for each program, as well as conduct and document in-depth reviews at least every 3 years, and adjust reserve plans and levels as appropriate.

Reserve Planning

- Financing and Treasury coordinated a Housing Reserve Workshop in August 2006 as a result of an audit finding that showed that the Housing programs did not adequately develop reserve plans.
- The audit findings are applicable to all other programs, including student unions.

Elements of a Good Reserve Plan

- The reserve plan is documented, approved, and benchmarks are justified.
- At minimum, each category and transfer goal is set for:
 - Maintenance & Repair/Capital Renovation and Upgrade;
 - Working Capital;
 - Capital Development for New Projects;
 - Catastrophic Events.

Elements of a Good Reserve Plan

- While separate accounts are not required for each category, the reserve plan must have a spreadsheet that tracks designated funds for each category.
- Annual Timeline – evaluations of the reserve plan are made on a planned and consistent basis.
- Designees are formally approved and identified.

Elements of a Good Reserve Plan

- Transfer Goals are realistic and achievable:
 - There is a method establishing transfer goals. This is documented.
 - A formal evaluation of facility needs are made by the campus CPDC department along with an outside consultant.
 - The program makes annual transfer goals. Goals are achievable and the program is demonstrating, on a consistent basis, its commitment to the goals by making the transfers.

Elements of a Good Reserve Plan

- An annual evaluation of “actuals” versus benchmarks is made, documented, and approved.
- If you miss a benchmark, then document why that happened. What can be done to correct missing the benchmark? Is it unrealistic? Are rental rates too low? Are other reserves not adequate? Was this discussed with the Vice President?
- If there is a consistent pattern of missing benchmarks, then that would be a problem, both from an audit perspective but from a best practices perspective.

Reserve Plan Resources

- Catastrophic Events:
 - Campus and C.O. Risk Management Dept's
 - FEMA: www.fema.gov
 - State of California Office of Emergency Services:
www.state.oes.gov
 - US Department of Homeland Security:
www.ready.gov

Reserve Plan Resources

- Maintenance & Repair/Capital Renovation and Upgrade:
 - Campus and C.O. CPDC Depts.
 - Association of Physical Plant Administrators:
www.appa.org



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