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To: Associate Vice Presidents, Finance and Administration

From: George V. Ashkar
Assistant Vice Chancellor/Controller, Financial Services

Subject: Definition of Major Maintenance & Repair Costs as Used in Executive Order 994 for Auxiliary Enterprise Funds in the SRB Program

Guidance has been requested in connection with the definition of “major” maintenance and repair costs as used in Executive Order (EO) 994 since the term “major” can be subject to varying interpretations throughout the CSU. This memo is intended to provide information that will assist in achieving consistency in the recording of these costs. The definition will affect the selection of CSU fund for posting these costs and may also affect the calculation of the debt service coverage ratio (DSCR).

A DSCR is a standard financial analysis calculation used to evaluate the ongoing cashflow strength of a program or entity with debt service obligations. As the financing market prescribes, the calculation is based on current period revenue and expenditures, and not based on reserves, in order to measure an entity’s ability to generate cash from operations on a consistent basis. The higher the DSCR, the more favorably an entity, such as the CSU, is viewed by investors and rating agencies.

In order to improve consistency in financial data being submitted, we first need to distinguish between a “routine” repair and a “major” repair. A “routine” repair is one which occurs in the normal course of operations. Examples of “routine” repairs would include painting an office or fixing a leaking pipe.

A “major” repair is one which is either infrequent in nature or which is scheduled on a non-routine basis and may require setting aside funds over a period of time or issuing additional debt to fund it. Examples of “major” repairs include re-roofing an entire building, replacing the carpeting throughout a building or replacing a ventilation system.

The distinction between a “routine” and a “major” repair is important because “routine” repair costs are included in the calculation of the DSCR to evaluate financial viability of capital projects by CSU management, whereas “major” repair costs are excluded from such calculation.

“Major” repairs are not synonymous with capital expenditures. Capital expenditures are costs incurred to acquire or construct a capital asset, defined in Chapter 13 of the GAAP Reporting Manual as “. . . real or personal property that has a unit acquisition cost equal to or greater than \$5,000 and an estimated life greater than one year.”

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San Bernardino
San Diego

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San José
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The cost of “routine” repairs should be recorded in auxiliary enterprise operating funds. The cost of “major” repairs should be recorded in auxiliary enterprise repair and maintenance/internally designated capital project funds. The choice of an appropriate CSU fund is important since it is used as the identifier to distinguish between “routine” repairs and “major” repairs.

For your reference, below is a listing of auxiliary enterprise operating funds and repair and maintenance/internally designated capital project funds in state fund 0948 that are used in the calculation of the DSCR:

Auxiliary Enterprise Operating Funds (to record "routine" repair and maintenance)			
Program	SCO Fund	CSU Fund	Description
Housing	948	531	TF Housing-Operations and Revenue
Student Union	948	534	TF Campus Union-Operations and Revenue
Parking	948	472	TF Parking Revenue Fund-Parking Fees
Health Center	948	452	TF Facility Revenue Fund-Health Facilities Fee
Continuing Education	948	441	TF CERF Extended Education
Maintenance and Repair/Internally Designated Capital Project Funds (to record "major" repair and maintenance)			
Program	SCO Fund	CSU Fund	Description
Housing	948	532	TF-Housing-Main&Repair/Internally Designated Capital Proj
Student Union	948	535	TF-Camp Union-Main&Repair/Internally Designated Capital Proj
Parking	948	474	TF-Parking-Main&Repair/Internally Designated Capital Proj
Health Center	948	454	TF-Facility-Main&Repair/Internally Designated Capital Proj
Continuing Education	948	443	TF-CERF-Main&Repair/Internally Designated Capital Proj

Note: Some campuses are still recording repair and maintenance transactions in state funds 0575, 0580 and 0581. The same definitions for “routine” and “major” apply to these state funds as well.

Additionally, below is a listing of auxiliary enterprise construction funds restricted by outside donors for capital outlay purposes. Only capital outlay expenditures should be recorded in these funds.

Externally Restricted Capital Project Funds (to record capital expenditures from outside donations)			
Program	SCO Fund	CSU Fund	Description
Housing	948	533	TF-Housing-Construction, Externally Restricted
Student Union	948	536	TF-Camp Union-Construction, Externally Restricted
Parking	948	473	TF-Parking-Construction, Externally Restricted
Health Center	948	453	TF-Facility-Construction, Externally Restricted
Continuing Education	948	442	TF-CERF-Construction, Externally Restricted

Regarding the choice of object codes, object code 660021, Repairs & Maintenance, is available to record both “routine” and “major” repairs. However, other object codes for non-capital expenditures may also be used if they appropriately describe the nature of the expenditures (e.g., 613001, etc.). Capital project expenditures should be recorded in the object code series 607XXX in either externally restricted

construction funds, or repair and maintenance/internally designated capital project funds when appropriate.

Ultimately, the classification of a repair and maintenance item as either “routine” or “major” is a matter of judgment and will vary depending on the campus size and the nature of the repair. It is critical that a careful evaluation of the classification of each repair expenditure be made to ensure the accuracy of the DSCR. EO 994 establishes minimum values that must be met for the campus’s debt program. Falling below these benchmarks could jeopardize the campus’s ability to finance future projects.

The attachment to this memo provides an example of inappropriate recording of major maintenance and repair expenses and appropriate recording of these costs, with a demonstration of the impact of each on calculation of the DSCR.

The guidance provided herein is recommended to be effective July 1, 2011 and will be required on July 1, 2012. Early adoption is encouraged for the benefit of the campuses as explained above.

Should you have any questions, please feel free to contact Roberta McNiel at 562-951-4668 or Sedong John at 562-951-4577.

[Attachment](#)

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**Example of Inappropriate Recording of M&R Expenses
and Impact to Debt Service Coverage Ratio (DSCR)**

	Object Code	Amount
Revenue		
Sales and Services of Auxiliary Enterprise	504000	6,500,000
Interest from SMIF	507001	80,000
Other Operating Revenues	580090	1,500
Total Revenue		6,581,500
Expenses		
Management and Supervisory	601201	100,000
Support Staff Salaries	601300	1,000,000
Benefits	603000	650,000
State prorata	612001	180,000
Chancellor's Office	660025	40,000
Services from Other Funds/Agencies	617001	400,000
 Supplies and Services	 660003	 1,500,000
Maintenance and Repair (Routine M&R)	660021	60,000
Total Expenses		3,930,000
Net Income		2,651,500
Debt Service		2,750,000
Debt Service Coverage Ratio (DSCR)		0.96
Transfer to M&R Reserve		250,000
Transfer to Construction		100,000
Transfer to Catastrophic Event Reserve		500,000
Net Income <u>after</u> debt service and transfers		(948,500)
Beginning Balance		5,550,000
Ending Balance		4,601,500
Reserve Funds		
M&R Reserve		
Beginning balance		3,500,000
Transfer in		250,000
Expenditures		-
Ending balance		3,750,000
Construction Reserve		
Beginning balance		1,500,000
Transfer in		100,000
Expenditures		-
Ending balance		1,600,000
Catastrophic Event Reserve		
Beginning balance		2,500,000
Transfer in		500,000
Expenditures		-
Ending balance		3,000,000

In this example, Major M&R Expenses totalling \$1,200,000 were incorrectly recorded as Supplies and Services.

The DSCR is understated and does not meet the minimum requirement of 1.10. If M&R had been recorded properly, the DSCR would be 1.40.

The major M&R expenses totalling \$1,200,000 that were incorrectly recorded as Supplies and Services under Operating Expenses and should have been recorded here.

**Example of Appropriate Recording of Major M&R Expenses
and Impact to Debt Service Coverage Ratio (DSCR)**

	<u>Object Code</u>	<u>Amount</u>	
Revenue			
Sales and Services of Auxiliary Enterprise	504000	6,500,000	
Interest from SMIF	507001	80,000	
Other Operating Revenues	580090	<u>1,500</u>	
Total Revenue		6,581,500	
Expenses			
Management and Supervisory	601201	100,000	
Support Staff Salaries	601300	1,000,000	
Benefits	603000	650,000	
State prorata	612001	180,000	
Chancellor's Office	660025	40,000	
Services from Other Funds/Agencies	617001	400,000	
Supplies and Services	660003	300,000	Appropriate M&R Expense which
Maintenance and Repair (Routine M&R)	660021	<u>60,000</u>	does NOT include Major M&R.
Total Expenses		2,730,000	
Net Income		3,851,500	
Debt Service		2,750,000	
DSCR		1.40	Appropriate DSCR which meets minimum benchmark of 1.10.
Transfer to M&R Reserve		250,000	
Transfer to Construction		100,000	
Transfer to Catastrophic Event Reserve		500,000	
Net Income <u>after</u> debt service and transfers		251,500	
Beginning Balance		5,550,000	
Ending Balance		5,801,500	
<u>Reserve Funds</u>			
M&R Reserve			
Beginning balance		3,500,000	
Transfer in		250,000	
Expenditures		1,200,000	Appropriate Recording of Major M&R Expense.
Ending balance		2,550,000	
Construction Reserve			
Beginning balance		1,500,000	
Transfer in		100,000	
Expenditures		-	
Ending balance		1,600,000	
Catastrophic Event Reserve			
Beginning balance		2,500,000	
Transfer in		500,000	
Expenditures		-	
Ending balance		3,000,000	