



Student Union – Decentralization

Presentation by:
Financing & Treasury
September 21 and 30, 2004



Introductions

- Financing and Treasury
 - Colleen Nickles, Senior Director
 - Rosa Renaud, Senior Financial Manager
 - Angelique Sutanto, Financial Analyst
- Financial Services Accounting
 - George Ashkar, Senior Director/Controller
 - Lam Le, Manager
 - Lawrence Gutierrez, Lead Accountant
- Humboldt Student Union
 - Heidi Chien, Associate Director
- San Bernardino Student Affairs
 - Helga Kray, Assistant Vice President



Agenda

- Systemwide Revenue Bond Program
 - Flexibility with New Bond Indenture
 - Executive Order 876
- Decentralization of the Student Union Program
- Changes Affecting:
 - Student Unions
 - Campus' CFOs
 - Financing and Treasury
 - Accounting Process
- Traditional Student Union Budget Forms
- New Debt Service Coverage Ratio Form



Systemwide Revenue Bond Program (SRB)

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



Systemwide Revenue Bond Program (SRB)

- 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 (SRB)

- 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.



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



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”.
 - Improves cash flow with a “pay-as-you-go” concept similar to other programs such as for Housing and Parking.
 - No bond reserve requirement.



SRB and Student Unions

- Decentralization for the student unions occurred with Richard West memo dated April 30, 2004. The decentralization became effective 2004/05. (See handout.)
- We saw this as an opportunity to decentralize student unions that are fully in SRB, that is only those that have all the related bond debt in SRB or have no bonds outstanding.
- Those unions with only senior bonds or with a combination of senior bonds and SRB bonds are not eligible to be decentralized.



Student Unions Eligible for Decentralization

- Bakersfield – Refunded Bonds
- Dominguez Hills – Refunded Bonds
- Fresno – Refunded Bonds & Issued New Bonds
- Hayward – Refunded New Bonds & Issued New Bonds
- Humboldt – Issued New Bonds
- Long Beach – Refunded Bonds
- Los Angeles – Refunded Bonds
- Sacramento – Refunded Bonds
- San Bernardino – Refunded Bonds & Issued New Bonds
- San Marcos – Issued New Bonds
- Sonoma – Issued New Bonds
- Stanislaus – Refunded Bonds
- Note: Channel Islands, Monterey Bay, and Maritime Academy – No Existing Bonds Are Outstanding. In the future new bonds would be in SRB.



Executive Order 876

Financing & Debt Management Policy

- A CABO advisory committee was created to develop a financing and debt management policy. The focus was to:
 - Establish standards to maintain advantages of SRB including low financing costs.
 - Address debt capacity issues (i.e. a limit to how much the CSU can issued debt).
 - Establish a better capital planning process.
 - Retain flexibility to do special priority projects.
 - Give campuses guidelines.



Executive Order 876

Financing & Debt Management Policy

- All student union programs regardless of whether they have been decentralized fall under this executive order.
- The executive order is a good baseline for the decentralized student unions particularly because it parallels the new bond indenture requirements.



Executive Order 876

Critical Requirements

- Two key benchmarks are defined in the policy to monitor campus and program financial position:
 - Net Revenue Debt Service Coverage Ratio (DSCR). See Section 4 and Attachment A.
 - Debt Capacity. See Section 5.
- Reserve Requirements. See Section 7.



Executive Order 876

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:
 - $\text{Fee Revenue} + \text{Interest Income} - \text{"Return of Surplus"} = \text{Net Income}$
 - Net Income then is Divided by Annual Debt Service Amount.
- It is important that a campus appropriately records revenues and expenditures to avoid errors in calculating the DSCR.



Executive Order 876

Critical Requirement - DSCR

- Policy Minimum DSCR Benchmarks are:
 - Systemwide: 1.45
 - Campus: 1.35
 - Program: 1.10 *
 - Project: 1.0 (if part of an existing program)
1.10 (if stand alone project).
- * 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.



Executive Order 876

Critical Requirement – Debt Capacity

- Debt Capacity is a measure that focuses on the overall campus. The campus debt payments compared to its net unrestricted expenditures need to be within the maximum CSU benchmark of 4.0%.
- Financing and Treasury notifies the campuses annually of their positions.
- Further, the Board of Trustees is notified with every project that is being considered for financing approval.



Executive Order 876

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 876

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.



Decentralization of the Student Union Program – Effects on the 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 FT.



Decentralization of the Student Union Program – Effects on the Unions

- Unions/campuses will receive an annual “PFA” budget memo from FT that identifies the amount needed to be transferred on a quarterly basis to cover:
 - Payment of principal and interest on outstanding bonds;
 - Debt reserves of 15% of debt service when applicable;
 - Payment of centrally paid administrative expenses such as State and Chancellor’s Office overhead expenses;
 - This is a big accounting and budget change from prior years.



Decentralization of the Student Union Program – Effects to the Campus' CFOs

- Richard West requests that the campus' CFO be responsible for the implementation of the decentralization and oversight of the student union program.
- The campus CFO is delegated direct expenditure authority for the DRF Student Union Revenue Fund (#580) and the DRF Student Union Repair and Replacement Fund (#575).
- The CFO must assure that sufficient funds are available in Fund 580 to cover the quarterly transfers for payment of debt service and overhead obligations.



Decentralization of the Student Union Program – Effects to the Campus' CFOs

- The CFO is responsible for the review and oversight of an annual budget package received from the union.
- The CFO has the authority to release funds to the union to cover upcoming operating expenditures and a working capital reserve.
- The CFO will monitor the union's performance related to the Net Revenue Debt Service Coverage Ratio (DSCR) and Reserve requirements per E.O. 876.



Decentralization of the Student Union Program – Effects to the Campus' CFOs

- The CFO must assure that the student union fee revenues are invested in the Surplus Money Investment Fund (SMIF) in the DRF – Student Union Revenue Fund and other DRF accounts.
- The CFO must make “prudent” decisions as to how much is distributed to the union’s auxiliary organization.



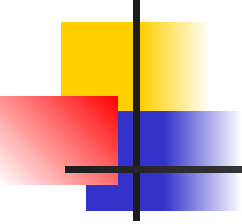
Decentralization of the Student Union Program – Effects to Financing and Treasury (FT)

- FT continues to monitor student unions with senior bonds outstanding to assure compliance with specific bond requirements.
- FT will monitor decentralized student unions on a global basis given the new DSCR form.
- FT will provide campuses with an annual budget (“PFA memo”) in the Spring showing transfers that are required to pay for debt service and overhead expenses.
- FT continues to be responsible for the approval of capital/construction projects.
- FT continues to be a resource for all campuses and unions.



Major Accounting Changes for Decentralized Student Unions

Presentation by:
Systemwide Financial Operations



Funding student union operations (Return of Surplus)

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	<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 their accounting department to issue a check for funding their student union operations.• The campus' accounting department issues the check to their student



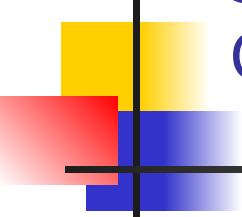
Fund 580 Dormitory Revenue Fund

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 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.• The SCO will cross post the funds to the campus expenditure account, which gives campuses the authority to spend the funds.• Systemwide Financial Operations (SFO) has contacted the SCO to allow campuses to have the spending authority of the available funds prior to the inception of cross



SMIF interest earnings

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 with a Systemwide Financial Operations' Accounting Department Notice of Accounting Transaction (ADNOAT).	<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 and automatically cross post the funds to the campus' expenditure account to increase their spending authority.• Campuses are notified with a Systemwide Financial Operations' Accounting Department Notice of Accounting Transaction (ADNOAT).



Cost recovery for centrally paid expenses (e.g. debt service obligations and reserves, State Pro Rata, and Chancellor's Office overhead)

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 semi-annual PFA.• A semi-annual PFA is submitted to the SCO for recovering costs associated with the student union bond program.• An allocation order is needed.• Transfers to funds 575 & 576 are included as part of the PFA.	<ul style="list-style-type: none">• Systemwide incurs expenses on behalf of each campus' student union program.• Financing and Treasury will issue a memorandum annually for the centrally paid costs.• The campus CFO is responsible for ensuring that the funds are available to cover the quarterly PFA.• A quarterly PFA is submitted to the SCO for recovering costs associated with the student union bond program.• An allocation order is no longer needed.• Transfers to funds 575 & 576 will be handled individually as they arise.



Transfers to Fund 575 Dormitory Building Maintenance and Equipment Reserve Fund (DBMER) also known as the Repair & Replacement Fund

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.• SFO will perform the transfer and pass it to the campus through the PFA process described above under "costs recovery 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">• Campuses will perform the transfer directly through their agency via a transfer request to the State Controller's Office.• No allocation order is needed since transfers are now made at the campus agency level and "automatic cross posting" has been established by the SCO.



Transfers to Fund 576 Dormitory Construction Fund (DCF)

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.• SFO will perform the transfer and pass it to the campus through the PFA process described above under "costs recovery for centrally paid expenses."	<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.• SFO will perform the transfer via a transfer request to the State Controller's Office using the campus' agency for the disbursing side (e.g. fund 580 DRF) and CO's agency for fund 576 DCF.



State Controller's Office Contacts

- **Dana Parrish (916) 324-5921**
Plan of Financial Adjustments, Allocation Orders
- **Karen Brenenstall (916) 323-2154**
SMIF Interest Earnings
- **Karri Boyer (916) 327-1719**
Transfer Requests



Financing and Treasury

Student Union

Budget Review Process

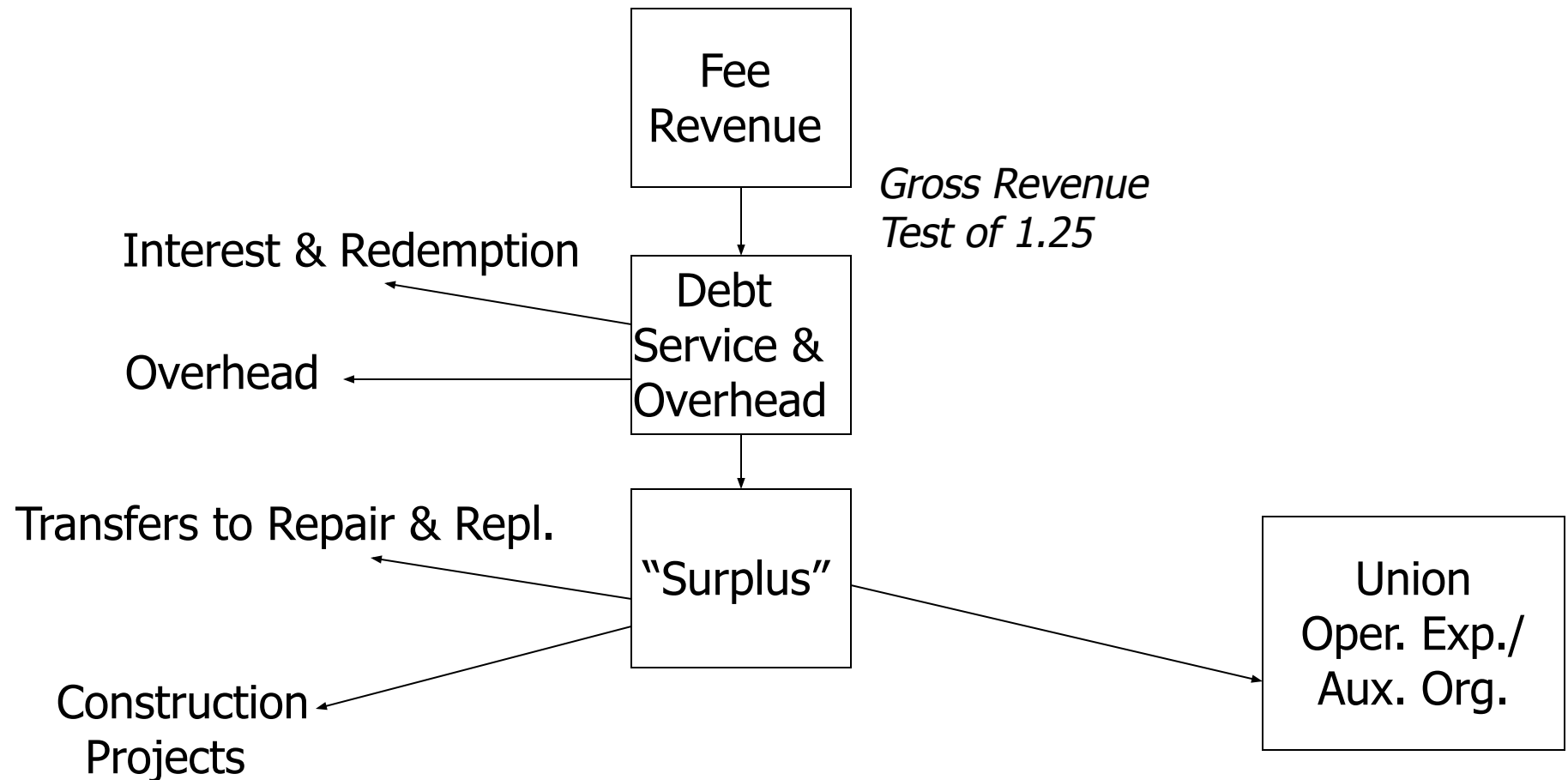


Student Union Budget Forms

- Review of Student Union Budget Forms -Handout.
- Campuses have flexibility to modify schedules to fit their needs.
- However, for unions considering capital construction projects, FT recommends maintaining the same format for consistency. Additional schedules are always welcomed.

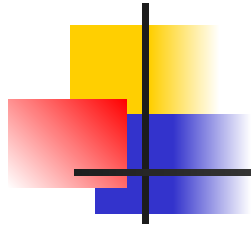
Senior Bonds - Student Unions

Flow of Funds – “Old Method”



Decentralized Student Unions

- Flow of Funds



Fee
Revenue
& Int. Income



Union Oper.
Expenses/
Aux. Org.



Net
Oper.
Income



Net
Income

PFA for Debt Service &
Overhead

Transfers to Repair & Repl.

Construction Projects

*DSCR calculation based
On E.O. 876*



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 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

	2002/03 Audited	2003/04 Estimated	Budget Year 2004/05 Proposed	2005/06 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 OPS				
7. NET TRANS. TO INT. & REDEMT:				
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.
 - We also compare with the calculation of:
 - $\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}$
 - Note: for Decentralized Student Unions the Campus' CFO may develop own policy.

WORKING CAPITAL AND CONTINGENCY RESERVE COMPUTATION (1)

A.	2003/04 Total Expenditures (Line 20).....	\$	(2)
B.	Reserve Factor.....	x .35	
C.	Computed Maximum WC Reserve.....		
D.	Add one half of 2004/05 proposed Capital Equipment & Related Expenditures (Line 22).....		
E.	SUBTOTAL (Computed Max Need).....		
F.	Estimated 2003/04 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 2004/05 may not exceed the amount entered on Line G or H. Adjust 2004/05 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. FT and Campus' CFO have responsibility to assure that fees are at sufficiently high levels to meet bond indenture and E.O. 876 requirements.
 - Confirm traceability to Schedule 1.

SCHEDULE 3**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 2001/02										
ACTUAL 2002/03										
ESTIMATED 2003/04										
PROJECTED 2004/05										
PROJECTED 2005/06										

**Revised 4/04
FT 04-05**



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.

Revised 4/04
FT 04-05

TOTAL (Sched 1, Line 22)[illegible]



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. We modified the schedule in your handout with both the new and old formats. The new format duplicates some of Schedule 1 information yet is not complete.
 - For Senior Bonds: we review per the requirements of Section 5.02 of the bond resolution. We review trends of Uncommitted Facility Bond Fund Reserve levels and confirm that levels are not negative. We adjust the budget accordingly to prevent covenant default.
 - We confirm traceability to Schedule 1.

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

As of 6/30/04

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

Parallel to Systemwide Revenue Bond Idea:

As of 6/30/04

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



New Debt Service Coverage Ratio Form

- FT 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 November 1, 2004. The CFO will be requested to respond.

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

Campus: _____
 Program: Student Union

	Prior Year Actuals 2003/04	Current Year Budget 2004/05	Projected 2005/06
Revenue from Fees	_____	_____	_____
Interest Income	_____	_____	_____
Total Revenues	_____	_____	_____
Operating Expense (1)	_____	_____	_____
Net Operating Income	_____	_____	_____
Debt Service	_____	_____	_____
DSCR	_____	_____	_____
Transfers & Other Expenses:			
Net Transfers to Interest & Redemption	_____	_____	_____
Transfer related to 15% I&R Reserve	_____	_____	_____
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.



Conclusion

- Questions.
- Contacts:
 - Financing and Treasury: (562) 951-4570.
 - Colleen Nickles: cnickles@calstate.edu
 - Rosa Renaud: rrenaud@calstate.edu
 - Angelique Sutanto: asutanto@calstate.edu
 - Accounting: (562) 951-4610.
 - George Ashkar: gashkar@calstate.edu
 - Lam Le: lhle@calstate.edu
 - Lawrence Gutierrez: lgutierrez@calstate.edu
- Thanks for your attendance.