

UNIVERSITY OF CALIFORNIA HOUSING SYSTEM

ADMINISTRATIVE PLAN

This plan describes the primary system objectives and (annual) activities. Much of the description contained herein is elaborated on in the specific data collection instructions published to the housing offices at each campus. Likewise, final reports include discussion and analysis that are beyond the scope of this administrative plan. Contact us if further details are desired.

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UNIVERSITY OF CALIFORNIA HOUSING SYSTEM ADMINISTRATIVE PLAN

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INTRODUCTION

The University of California has owned and operated student housing facilities since the 1920's. Research has demonstrated that the campus living experience is an important component to student's academic success, regardless of the size or location of the college or university attended. The following represents the Mission Statement for the University's student housing operations:

**ENHANCE THE OVERALL STUDENT LEARNING
EXPERIENCE BY PROVIDING LIVING / LEARNING
COMMUNITIES AND STUDENT SERVICES THAT
SUPPORT CAMPUS ACADEMIC PROGRAMS
AND ASSIST STUDENT
RECRUITMENT / RETENTION EFFORTS.**

Following are three Basic Operating Principles for the University's Student housing program:

- 1. FINANCIAL INTEGRITY - Student housing facilities shall be managed based on prudent business practices and shall be operated in a manner that is consistent with the provisions of any indentures applicable to the external financing for such facilities and that will assure the long-term financial stability of the University housing system. Rates and fees charged to occupants shall be sufficient to cover all expenses of such**

operations including debt service and related requirements, equipment replacement, maintenance, and as necessary and appropriate, equity contributions for future projects.

- 2. FAIRNESS - Rates and fees charged to the occupants of student housing facilities shall include costs directly related to the services provided, and, as specifically noted in the bond indentures, must exclude costs of general University operations. Operations and costs are managed in a prudent way to keep rates and fees as low as reasonably possible.**
- 3. FLEXIBILITY - Accumulated net revenues of housing operations may from time to time be made available for use on a temporary basis for University purposes other than housing under an approved internal inter-fund borrowing arrangement with an identifiable source of repayment, so long as such use of revenues does not adversely impact student housing fees, debt service obligations, and/or ongoing maintenance requirements and is otherwise consistent with the terms of any applicable University bond indenture or other loan agreement.¹**

The vast majority of the University's student housing is part of the University of California Housing System². What follows is the administrative plan for governance of that System.

(See Appendix A for the UCHS Planning and Results Calendar).

I. HISTORY OF UNIVERSITY OF CALIFORNIA HOUSING SYSTEM

The University of California Housing System (UCHS) was created on June 8, 1993, with the issuance of \$255,175,000 in University of California Housing System Revenue Bonds, Series A. At the time of its establishment, the UCHS consisted of 26,750 residence hall bed spaces, 6,520 single student apartment bed spaces, 2,850 student family apartment units, and 460 apartments for University faculty and/or staff.

As of Fall 2003 the UCHS has grown to 33,074 residence hall bed spaces, 9,808 single student apartment bed spaces, 3,616 student family apartment units, and 493 apartments for University faculty and/or staff. Total replacement value of UCHS facilities, based on the Engineering News Record (ENR) index of December 2003 was \$2.7 billion, reflecting initial capital costs of \$1.3 billion.

¹ Inter-fund borrowing requests will be reviewed by the impacted Housing Director(s) and will include details of the projected activity and the terms / conditions of the loan.

² UCHS administers 90% of all occupied student beds; Campus Housing Facilities (administered independently on 5 campuses) account for 7% of student beds, while third party owner/operators administer 3.3% of the total 54,335 occupied student beds (Fall, 2003 report). UCHS also administers a small faculty and staff component at some campuses (1% of total bed spaces) to assist with the recruitment and retention of highly qualified personnel.

The predecessor to UCHS was the Group A Housing System which had been in continuous operation since November 1958. Most, but not all, Group A Housing System facilities were included in UCHS. Housing facilities which are not part of UCHS are referred to as Campus Housing Facilities (CHF – independently operated facilities present at 5 campuses) or Third Party housing (housing on campus property built and operated by a Third Party Developer which is present on two campuses). UCHS Bonds were defeased in Fall 2003 through the issuance of the University General Revenue Bond.

UCHS facilities are also funded from the following sources: UC Funds, gifts; Pool 1, Series 3 through 10; Pool 3 Bonds, Series D and E; Pool 4 Bonds, Series F; Pool 5 Bonds, Series H and I; Pool 6 Bonds, Series K and L; Pools 7, 8, 9, 10; and commercial loans obtained from Chrysler Corporation and Wells Fargo Bank (the latter retired in 1997). See Appendix B for a compilation of funding sources by facility. As of December 2003, the General Revenue Bonds and the Pool 1 through Pool 10 Bonds had maturity dates ranging from 2004 through 2032.

II. UCHS FINANCIAL PLAN

A. Overview

Each year the Office of the President (Financial Planning and Analysis) prepares a rolling ten-year Financial Plan for UCHS. This Plan includes the following segments (example template and instructions – appendix C):

- 1) *Sources of income (rents and interest income)*
- 2) *Operating expenses*
- 3) *Maintenance and Equity requirements (from reserves)*
- 4) *UCHS capital investment / facility growth plans*
- 5) *Debt Coverage and Reserve Balances (after Net Revenue Transfer)*
- 6) *End of year Cash Balances (before Net Revenue Transfer)*

These components are compiled into a systemwide summary of UCHS financial performance. The materials are reviewed by the Housing Directors at their annual Winter Meeting (March) to evaluate system financial health and determine if any short or long term measures have to be taken to ensure the continued financial strength of the system. The final Financial Plan is subsequently published (June time frame) to Senior Management at the campuses and OP.

B. Campus data collection model (initiated by OP)

The campus data request / model is distributed to the campuses in December of each year and returned in early January. The distributed model's startpoint is based upon the campus' previous submission to streamline input of new data. The model is also interactive, including equations in totals, reserve, cash, debt and analytic ratio fields, allowing campuses to understand the broad ramifications of their plans and perform 'what if' scenarios prior to submission.

Included in the model is an investment / facility growth field that allows campuses to list all projects which are contemplated at the time of preparation, including new facilities, renovation projects and major purchases. The field also shows how each project is to be funded: cash from the UCHS Net Revenue Fund, borrowing, or gifts. The model automatically translates the proposed project financing (principal) requirements into annual debt service based on current planning rates and terms. Debt for the proposed UCHS project rolls into the expense component of the model to calculate total debt service requirements.

The project list is also used to develop and display systemwide and campus specific total housing bed supply trends. The data collection fields have been expanded to show CHF and Third Party Development facility additions (no UCHS financial impact).

To complete the Financial Plan model, the campuses are requested to populate annual average rental rate year over year increases (% - see plan instructions for details), and proposed year over year Residential Hall and Single Student Apartment Fees (\$).

The Financial Plan presentation and discussion with the housing directors and publication of the final financial plan to senior management does include three parameters with campus specific details, these are: year over year campus rate increases, debt service coverage and end of year cash balances. These indices reinforce and add depth to the systemwide financial summary detailed above (items 1 – 6).

Key financial benchmarks (performance measures) are also calculated by the model. These include:

Bottom Line Ratio: ability of business to generate cash

P&I Total Revenue Ratio: extent revenues are committed to cover debt payments

Reserve Balance Ratio: capacity to cover debt and maintenance with reserves

Major Maintenance Contribution: extent facilities are maintained

These ratios are not published at this time, but do give senior management a valuable means of recognizing any trouble signals on the housing financial horizon.

III. ANNUAL MINIMUM NET REVENUE TARGETS (ASSESSMENTS)

Principal and interest payments on UCHS debt, regardless of source, is paid on a system basis; that is, such payments are made from the universitywide UCHS Net Revenue Fund without regard to individual facility. In order to assure that sufficient funds are available to meet these obligations, the Office of the President annually establishes for each campus a minimum net revenue target which its housing operations are expected to generate (Delegation of Authority 2016 – appendix D). Net revenues are defined as gross revenues minus operating expenses.

A. Calculation Methodology

The dominant debt service payments on UCHS obligations are made as follows:

- September 1: Full year principal and one-half year interest on Pool Bonds
- November 1: One-half year interest on General Revenue Bonds
- March 1: One-half year interest on Pool Bonds
- May 1: Full year principle and one-half year interest on General Revenue Bonds
- Monthly: Principal and interest on Commercial Bank loans

Net revenue targets are published in advance of the succeeding fiscal year (February time frame), based upon debt service obligations that same (succeeding) year. Existing properties and debt obligations, are coupled with each campus' proposed projects and new debt. The assessment schedules are prepared listing each UCHS facility/project at each campus, together with the source(s) of outstanding debt and the actual debt service payment applicable to that obligation. New project debt calculations are based upon the UC official planning rate applied to the campus' projected financing requirements. Any facility/project that **has** debt outstanding or proposed is assessed at 1.25 times the listed debt service. Any facility/project which **has no** outstanding debt is assessed at 1/2 of 1% of its replacement value. The sum total of facility/project assessments at each campus location becomes the minimum net revenue target (assessment) for that campus. Five years of net revenue targets are published to allow campuses to plan for future debt obligations.

It should be noted that the assessments represent the minimum net revenues which campuses are expected to earn. There is no maximum on the net revenues a campus may elect to generate. See Section V.A. below (HOUSING AND DINING FEES - Campuses) for further discussion. Assessments are identified for each UCHS facility/project; however, there is no requirement that net revenues be earned on that basis. So long as the aggregate minimum net revenue target is achieved at the campus, it is not necessary that each facility generate net revenues equal to the assessment schedule. (See Appendix E for an example of the assessment schedule.)

As identified in section III. B. UCHS Net Revenue Fund, investment income from fund balances is annually included to campus subaccounts. For purposes of calculating actual campus and system debt coverage, investment income is added to net revenues: $\text{coverage} = (\text{net revenue} + \text{investment income}) / \text{debt service}$.

B. Timing

Assessment schedules are prepared each January, and the resulting aggregate campus net revenue target (assessment) is forwarded no later than February.

C. Failure to Achieve Net Revenue Target

Should a campus fail to generate sufficient net revenues in a given year to meet its assigned target for that year, no additional borrowing for UCHS facilities at that campus will be approved until the minimum net revenue target has been met or

exceeded for at least two successive years thereafter. A campus may request approval of an exception to this policy from the Office of the President.

D. Disposition of Net Revenues

By the close of each fiscal year, all net revenues generated by UCHS operations shall be deposited in the UCHS Net Revenue Fund held in the Office of the President³. **It is against University practice to withdraw net revenues for any purpose prior to transfer.**

E. Revisions to Calculation Methodology

The minimum revenue / assessment calculation methodology described in II.A. above, was developed by the Office of the President (Financial Planning and Analysis) in cooperation with the campus Housing Directors, and represents a mechanism to determine the minimum annual net earnings required to sustain the future financial strength of the UCHS. This assessment methodology may be revised as necessary by the Office of the President (Financial Planning and Analysis) and will be fully coordinated with the Housing Directors and other appropriate campus administration before implementation. Any revisions to the methodology should likewise be related to the future financial requirements of the UCHS in the aggregate.

IV. UCHS NET REVENUE FUND / RESERVES

The UCHS Net Revenue Fund is a System account. All net revenues from UCHS operations are transferred to this Fund by fiscal year end. Investment income (STIP) earned on Fund balances, as well as on all campus UCHS accounts, is also credited to the Fund. Debt service related to UCHS facilities is paid from the Fund as a System expense.

A. Management of the UCHS Net Revenue Fund

The Office of the President (General Accounting) has responsibility for management of the UCHS Net Revenue Fund in cooperation with the Office of the President (Financial Planning and Analysis) unit. Staff in General Accounting oversee transfers and deposits to the Fund, and arrange for payment of debt service and cash withdrawals. Staff in Financial Planning and Analysis review and authorize withdrawals from the Fund for purposes other than debt service.

B. Calculation of Campus Subaccounts

The Office of the President (Financial Planning and Analysis) prepares annually an end of year Participation Report which divide the UCHS Net Revenue Fund into campus components (all funds maintain campus integrity). Referred to as "subaccounts", the components reflect actual net revenues earned and actual expenses incurred by each campus against the Fund. Deposits other than net revenues (investment income for example) are also credited. The result is a

³ Preparation of campus Financial Plans (section II) may reveal shortfalls in 'end of year cash balances.' One remedy would be to initiate a 'Mid Year Transfer,' a process to transfer campus accumulated net revenues to OP in January for application to March and May dept payments. See Attachment F for additional details.

segmentation of the aggregate account into individual campus statements. These subaccount statements are used by UCHS operations management at the campus to determine what cash resources are available during the next fiscal year to withdraw to meet maintenance, equity capital, and other similar needs.

C. *Use of Net Revenue Funds*

The first call on the UCHS Net Revenue Fund is payment of debt service. The second call is the funding of ongoing maintenance of System facilities. After these two priorities, monies in the UCHS Net Revenue Fund may be used for any purpose that is related to UCHS operations EXCEPT payment of operating expenses. Such purposes can include equity for a capital project, major maintenance needs (e.g., replacement of HVAC equipment), or payment of legal fees in connection with litigation.

D. *Minimum Subaccount Balances – 102% Impound*

It is both prudent and necessary to maintain a UCHS Net Revenue Fund balance that is at least sufficient to pay current and pending debt service obligations and cover approved withdrawals. Both the Financial Plan / model and the end of year Participation Report (section B above) allow annual access to campus reserves not required for 102% of same year debt service (2% margin held for administrative fees).

E. *Optional Mid Year Transfer (MYT)*

To improve end of year cash balances and ensure sufficient funds are available at OP to cover debt payments, campuses may elect to transfer campus held net revenues to OP in January. The MYT allows campuses to have access to funds between July and December which would otherwise been set aside for the February debt service payment. (See Attachment F for additional details and schedule.)

UCHS Net Revenue funds may also be used for purposes other than housing, but only under an inter-fund loan arrangement with an accompanying repayment schedule as discussed in the Operating Principles (see Principle #3 - Flexibility).

V. **HOUSING AND DINING FEES**

A. *Overview:*

DA2016 (Appendix D) establishes the requirement for publication of Housing Fees annually to The Regents. The Fees report (distributed as well to campus and OP senior management) is a useful tool for reviewing the housing component of students' costs of attendance. The report compares campus and systemwide average costs, and provides a by-campus average increase (%) over the previous year. It allows for an overview of housing trends relative to student financial circumstances. (Variances between campuses are noted, such as local market conditions, residential services offered, new debt obligations and age of existing facilities.)

Note: Campus Housing Facilities fees are required to be collected and published as well as UCHS. (See Appendix G for an example of the President's report).

B. Campuses

Each of the University's campuses has UCHS facilities, and the responsibility for operation and maintenance of these facilities rests with campus management. One such responsibility is the determination of fees to be charged for housing and related services. Campuses maintain separate books for faculty and student housing to ensure sufficient fees are established for both without one community subsidizing the other.

The following activities represent the primary tasks which campuses are expected to perform in that connection (and requested by UCOP for submission before July of each year):

1. Develop annual budgets for UCHS operations, including operating expenses, assigned net revenue target and related debt service coverage tests, maintenance requirements and, as appropriate, funds needed to build equity for future projects or to meet other critical needs.
2. Calculate the housing and dining fees necessary to fund all housing operations and obligations. Such rates and fees may differ between facilities, and should reflect the scope of services provided. Prepare a fee schedule for approval by the Chancellor or to an individual designated by the Chancellor.
3. Forward the range of approved rates and fees to the Office of the President (Financial Planning and Analysis), together with a certification that the fees will generate sufficient net revenues to meet the assessment and any related debt service coverage requirements.

Note that in V.A.1. above, campuses may set rates and fees at levels which include expenses which may not occur immediately. Campuses are encouraged to build up cash reserves in the UCHS Net Revenue Fund over a period of years for use as equity toward a future project rather than borrow 100% of the cost.

VI. OCCUPANCY

A. Overview

A Housing Occupancy Report is prepared by all campuses every Fall Quarter. This helps establish the inventory and utilization of housing bedspaces and units throughout the University, including UCHS, CHF and Third Party developed / administered. The resulting report is distributed in January of each year to campus housing offices, multiple analysis groups at OP, and is filed with the California

State Department of Finance to contribute to their community growth trends model.

The Occupancy Report (sample report – Appendix H) is a key analytic tool which allows analysts and senior managers to determine utilization of housing facilities; if vacancies are apparent, single campuses or the entire system may not be generating sufficient revenues to cover its obligations.

B. Campus occupancy survey (initiated by OP)

Every housing facility on the UC Campuses is designed with a defined number of bedspaces or units. The total of all campus facilities' design capacity and also the actual number of bedspaces filled are submitted with the survey. (Over the last decade, most campuses have met increased housing demand by placing beds in designed study rooms or placing a third bed in rooms designed for two (making a 'triple'), resulting in occupancy figures greater than 100%.)

Each housing facility is grouped into one of five basic housing types. They are: Residence Halls, Single Student Apartments, Family / Couple Student Apartments, Faculty/Staff Apartments and/or Other Housing (under the group *Other Housing*, there are currently Mixed Use Unit, Recreational Vehicle Park, Guest House, Research Center Unit, and Greek Group Housing).

Each year's results are compared with the previous years and variances noted. Most variation stems from the adding of new facilities, a few from taking a facility off line for renovation. Modest variations may involve movement between categories, e.g. transferring a vacant family apartment unit into a 4 bedspace single student apartment. Such transfers are considered 'design mix' changes.

C. More to come: Since publication of the Housing Task Force in November, 2002, The UC Regents have begun tracking student housing goals and capacity (supply and demand). The occupancy collection survey is currently (June, 2003) being discussed and revised to allow for collection of enrollment projections and housing targets (% of enrollment). Compared with actual bed capacities and occupancy (supply), the data will allow for a better evaluation of the University's ability to meet the student housing demand. (See Appendix I for sample survey.)