

November, 15 2002

**Administrative details of Mid Year Transfer of housing net revenues**

**Background:**

As a result of UC campuses increasing demand for housing (UCHS) reserves for major maintenance and equity, an optional Mid Year Transfer (MYT) program has been initiated that will transfer campus net revenues to OP in January. The interim transfer would provide funds for the second annual debt service payment (placed in escrow on February 15th). The benefit to the campus would be to have access to incremental campus net income between July and December (resulting from not having to set aside funds at the beginning of the year for a full year's debt service).

Declining reserve balances: As the Campus Housing Offices are aware, systemwide and campus reserve balances have been falling relative to 1) debt and 2) maintenance levels necessary to support existing facilities. The MYT program has been initiated to aid campuses satisfy the need for new facilities, but could result in a more rapid deterioration of reserves. Prudent management of campus housing resources is cautioned to ensure adequate funds are available for continued maintenance of existing facilities, and as insurance against an unexpected, catastrophic event. The Housing Directors and OP Financial Management will continue to evaluate campus and systemwide performance.

STIP income on campus housing net income and OP held reserves is recorded at OP. This income will be reported to the campus housing offices (end of year in October, first / second quarter in March). This income automatically flows to campus reserve accounts and now be available for campus drawdown during the year.

**Guiding Principles:**

Successful implementation of these programs will require coordination between campus housing offices, and campus/OP accounting staffs.

Housing debt service has the first call on campus housing reserves (per indenture).

No campus can have negative end of year housing reserves without the knowledge of, and agreement by the Housing Directors and OP Financial Management. (A negative balance implies a subsidy by the system.)

## Appendix F

A campus may not access housing reserves in excess of its next pending debt service payment (plus 2% margin for administrative expense). Beginning of year reserves will be held at OP for the first semi-annual debt service payment (as published – see attachment 1 for example). A campus can access reserves otherwise required for the second annual debt service payment, provided a MYT commitment is made to transfer adequate funds to OP prior to that payment date.

If adequate OP maintained campus reserves are available in January (including current year STIP income), no MYT is required.

Funds must be at OP by January 30<sup>th</sup> of each year to allow transfer to the trustee escrow account on February 15<sup>th</sup>.

A midyear (end of December) close of campus books will not be required by OP. The campus housing office and general accounting staff will determine how to develop good estimates of current (actual) net revenues in major fund accounts. (Anomalies such as delayed utility charges, other campus recharges [e.g. campus security], etc. should be accounted for by making an intelligent estimate of pending transactions and adjusting the transfer to ensure retained campus net revenues remain positive. Lack of current, specific information may require the campus to retain a percentage of estimated net revenues to ensure an adequate 'comfort zone.')

The transfer would be made from a campus debit account, rather than from each of the multiple housing accounts maintained by each campus. A debit account is the current method for transferring end of year net revenues to OP (see sample journal form attached).

All MYT funds, including STIP, will apply to campus Debt Coverage test calculations.

MYT campus schedule / implementation plan:

September 15th – initiate plan: OP will initiate request with publication of report / worksheet showing 1) preliminary campus end of year net revenue reserve results,<sup>1</sup> and 2) the specific bi-annual housing debt service payments (see attachment 1).<sup>2</sup>

September 15th to October 15th – Campus Housing Offices initiate MYT cycle by returning worksheet to OP showing MYT dollar commitment, as well as projected maintenance and equity drawdowns. The information populated by the campus may vary from the business plan data collected in February, as project timing and costs could change equity and maintenance requirements. The end of year reserve balance must remain positive (unless an exception has been approved by the Housing Directors).

The housing office will coordinate with the campus general accounting contact and confirm the accounting office's ability to provide the required processing support for the January 30th transfer. The housing office will copy the accounting contact on all MYT correspondence with OP.

September through December – campus reserve drawdowns: the campus will have access to all OP held reserves net of the first debt service amount (plus 2% margin for administrative expense). An example from the attachment, UCB would have access to \$13.2M through January, 2002 (rather than \$7.7m under the previous plan).<sup>3</sup>

By January 30th – campus transfer: The transfer would be initiated by campus housing offices, authorizing the campus general accounting contact to transfer the fund levels established in the September commitment. Please copy OP with all intra-campus MYT correspondence so we can be sure that the required actions are underway.

The campus general accounting contact will establish a debit account and post the MYT just as with end of year close, step 54. (See attached financial journal form.)

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1 As final net revenue reserve results will be posted by mid October, some adjustment may be required that could require additional discussions with the campus about access to funds.

2 Prior to the September MYT commitment, a campus would have access to any OP held reserves net of current, full year debt service requirements (+ 2% margin), e.g. \$7.7m would be available for UCB.

3 A campus could MYT funds in excess of the second debt service payments, in order to have immediate access of additional net revenues for maintenance and equity.