QUESTIONS TO CSU CHANNEL ISLANDS SITE AUTHORITY FROM HOMEOWNERS - RECEIVED 11/30/2017

HAC responses to questions:

Basis SA 2017 Financial Report – Schedule 2 –

Schedule 2 is a supplemental report prepared for purposes of consolidation with the CSU and contains financial information for the Site Authorities entire financial portfolio.

1. What caused the dramatic increase in "Maintenance Rent" under "Common Area Maintenance"?

Previously, Maintenance Rent (and applicable operating expenses) for leasing operations were recorded as part of the leasing budget. Per Vasin Heyn & Co., the SA should properly account for CAM across all unit types all revenues and expenses accordingly.

2. What caused the dramatic increase in "General, administrative, and other expenses" under "Common Area Maintenance"?

The answer is the same for Question #; this adjustment affected both revenue and expenses

3. What caused the dramatic decrease in "Special Taxes" under "General Operations"?

An incorrect classification on the report caused the dramatic decrease; Special Tax from 2016/17 was $535,939.70.

4. Who authorized and what was the rationale for the $1,000,000 donation to CSU Channel Islands Foundation, considering the still unresolved "Reserve" funding/accounting problems.

The President of the University has the authority over all budgets for the campus; this includes the University, its three auxiliary organizations and the two public entities. The funds transferred to the Foundation are not part of CAM Operations or Reserves.

5. Why are there for the FIRST time no transactions re: Reserves listed?

The supplementary schedule excluded the transfer to reserves, as the net effect is zero across the entities.

6. Why does the 2017 financial report omit the line of the end of year net position?

The supplementary schedule inadvertently excluded the ending net position.

Questions from Stephen Clark Sept 5, 2017

1. The most important question, in my mind, is the following: Are we adequately funding the reserve accounts for expected and/or unexpected expenses? This question comes to mind when seeing a current reserve balance of $686,766 (as of 2016) for townhouse residential units, an amount that will decrease significantly after the upcoming painting project. Based on research I have done, it appears reasonable to expect that the concrete tile roofs on these homes may need replacement within the next 10 to 15 years (that is, when these roofs will be 25 to 30 years in age). See the following article on this topic from a company specializing in reserve studies: https://www.reservestudy.com/lifetime-tile-roofs-fact-or-fiction (also attached). According to this article (2012), the cost for replacing the roofs could be in the $12,000/unit

range, not including inflationary increases and assuming no underlying deterioration of subroof materials. ($12,000 x 200 = $2,400,000.)

You are correct. We have not been funding the reserve accounts adequately. We will work with the residents on prioritization of projects based upon the balances, and plan to address once all of the final CAM reconciliations are completed (expected in January 2018) as part of the 2018/19 budget process.

Current townhome reserve fund for residential units (not common areas): $686,766
This balance is only for owned townhomes (112), and does not include the 88 rental townhomes.

Upcoming townhome painting: $350,000;

Estimated balance after painting: $350,000.

Having accrued $686,766 during the first 15 years of the University Glen community's lifespan, would our current rate of reserve funding allow an expense such as a multi-million dollar roofing job to be covered without a special assessment? No.

Additional questions:

2. Do the starting balances of 6/30/2011 accurately reflect reserve contributions made before that date? It would be helpful to see the payments and expenses for the 2002-2011 time period in order to understand how the starting balances were determined (e.g., $59,312 for Townhome Common Area Reserves). This question becomes magnified as we go down the beginning balance column to the Residential Units (Townhomes). We can see that the average payment into these reserves has been about $83,000/year since 2011. One can surmise that there would be more than $248,794 as a beginning balance if contributions to reserves from 2002-2011 were even 50% of what recent reserve contributions have been. More information would be helpful to understand the beginning balances listed on the balance sheet we were given.

The overview of contributions to reserves and CAMS going back to 2005 was presented at the November University Glen Community Advisory Group meeting and will be presented at the December HAC meeting. Expenses for that time period will be presented at the January 2018 meeting.

3. Regarding the 2014-15 column, why do the payments into Townhome Common Area Reserves drop to $13,111 from $22,062 the previous year, which is roughly a 41% drop? Then in 2015-16, the same account shows an increase in reserve funding to $20,395, which is an increase of 36% from the 2014-15 amount contributed in reserve payments. I'm wondering why the amounts fluctuate like this.

(Response is from FAQ's from 2015 https://www.csuci.edu/siteauthority/uglen-residents/documents/uglen-resident-questions-dec2015.pdf) Reserves are based on a tri-annual review of all maintenance items to determine the replacement value. This drives the recommended amount to keep in reserves to cover those expenses over time and was provided annually to the University Glen Board of Directors for their review and approval. The last reserve study was completed in 2014. An audit was conducted of the reserves covering the time between July 1, 2011 and July 1, 2014. It was recommended that any changes in reserve allocation be documented and that expenses be specifically allocated to the reserve applicable to each related expenditure. The Site Authority management concurred with the recommendation and began this practice in January 31, 2016.

4. Was the recent slurry project paid for out of reserves? As an expense incurred to increase the life of an asset, this would typically be a reserve item, no? Perhaps this question has already been answered and my memory has failed me. If so, I apologize.

Yes, the recent slurry-sealing project will come out of reserves based upon the proportion calculation by unit type.

5. Why are negative expenses listed for common area reserves for 2015-16?

There are negative expenses listed for common area reserves for 2015-16 because the SA received an insurance refund from a claim for the Springs Fire.

One last suggestion, or idea for consideration: When our Academic Senate meets to consider important items, the items to be discussed are sent out in advance to give senators time to inform themselves and digest the information before meeting. This can make for a more informed discussion and allow members to ask questions that are based on their prior analysis of the information. Maybe we can try a similar practice in the future for this type of information?

This is an excellent suggestion, and we hope all members of the group will take this into consideration for future meetings.