

# ASUCLA/Ackerman Student Union Fee Continuity Report 1997-98

## History

The financial situation of the Associated Students of UCLA (ASUCLA) became precarious in the mid-1990s. In the late 1980s, just after ASUCLA had committed to the significant financial obligation associated with expanding and upgrading Ackerman Union and Kerckhoff Hall, a number of unforeseen events resulted in a reduction in revenues for many ASUCLA operations which had been counted on to fund the new construction, including an economic recession and the earthquake. Finally, the ASUCLA Board of Directors replaced the Chief Executive Officer of ASUCLA and brought in a turnaround recovery consultant. Now a new Chief Executive Officer has developed a five-year recovery plan which should bring ASUCLA back to a tenable position.

As a part of this plan, the Ackerman Student Union Fee was increased from \$7.50 per year to \$51.00 per year, effective Fall 1997. The increase is effective for five years, from Fall 1997 through Spring 2002. This fee increase was negotiated so that ASUCLA would be able to meet its contractual debt agreements. This debt arose from financing the seismic retrofitting and renovation of both Ackerman Union and Kerckhoff Hall. The portion of the construction debt for which ASUCLA is responsible is \$20.4 million (which increased from an original \$13.6 million debt in 1992).

Although the student fee ensures that ASUCLA meets its legal and contractual agreements for debt service, the fee itself is applied toward expenses associated with maintaining space for student use, including facilities for student government. This subsidization of student space was possible in the past because of ASUCLA's fiscal health. However, in its current state, ASUCLA can ill afford to maintain this arrangement. ASUCLA also contributed \$100,000/year to the Interaction Fund for student-run programs and activities, which for the time being is being covered by the Chancellor.

## SFAC's role in evaluation of the fee

The process by which the fee would be evaluated was determined during its inception. The fee was necessary to prevent ASUCLA from defaulting on contractual obligations. Because this default was also determined to be a life and safety issue because of potential repercussions on the seismic retrofitting debt, institution of the fee did not require a referendum vote. For this reason, it was decided that an annual consultation process would occur between ASUCLA, the administration, the undergraduate and graduate student governments, and the SFAC. The SFAC's role for years 1997-1998 (year 1) through 2001-2002 (year 5) of the \$51 fee is to evaluate ASUCLA's fiscal situation and determine whether the level of the fee should remain constant or decrease.

The \$51 fee approximately covers the costs associated with the student union, which is around \$1.7 million/year. This amount also ensures that ASUCLA will be able to meet its contractual debt service ratio of 1.25. This ratio is calculated as the ratio of net cash flow to debt service payments. For instance, if ASUCLA is paying \$1 million towards its debt, it must maintain a cash flow of at least \$1.25 million to maintain its contractual obligation to pay the debt.

## **Evaluation of the fee by the 1997-98 SFAC committee**

The 1997-98 SFAC committee appointed an ASUCLA Audit subcommittee, which examined the 5-year ASUCLA recovery plan and ASUCLA's recent history in order to develop issues and questions regarding the fee. These issues were then discussed during presentations by Patricia Eastman, executive director of ASUCLA, and Sue Santon, Administrative Vice Chancellor of Finance and Capital Strategy.

Ms. Eastman presented a 5-year plan for ASUCLA's return to profitability which hinged on several points: better sales in the new store, tighter cost controls, better inventory management, and low dollar capital investment (deferred maintenance). This last point was of particular concern to the SFAC because it implied that the appearance of profitability could obscure hidden infrastructure costs which would become visible into the future. As far as the 1997-98 evaluation, there was very little data available to compare ASUCLA's actual performance with its projected performance, although Ms. Eastman indicated that ASUCLA appeared to be doing better than expected.

The critical evaluation of debt service obligation was evaluated by Ms. Santon, who presented the financial feasibility of debt service payments in the context of the full construction debt, including the seismic renovations. Taking those debts into consideration and including ASUCLA depreciation costs in net cash flow, ASUCLA would be able to make 1.25x debt service coverage for years 1998 and beyond with the \$51 fee, based on the 5-year forecast (although not for year 1997-98). Without the \$51 fee, however, ASUCLA would not be able to make its debt service obligation. Because more data regarding the store's performance was not yet available, and because ASUCLA required maintenance of the fee to avoid defaulting on its debt, the SFAC committee recommended continuance of the full \$51 fee for 1998-99.

## **Points for future SFAC committees to consider**

One potential improvement that could be made in the 5-year ASUCLA proposal would be to highlight how the \$51 fee is incorporated into ASUCLA's balance sheets, and how it offsets the costs of student-associated facilities. This change could be mentioned in future requests for proposals from ASUCLA. Also, future SFAC committees will have to consider at what point ASUCLA may be financially stable enough to put money toward the Interaction Fund.

*-- Prepared June 1998*