MANAGEMENT SUMMARY

Background

As part of the fiscal year (FY) 2019 audit plan, AMAS reviewed Student Housing and Dining Services’ business operations, including rate setting procedures and planning processes.

As a unit under Student Affairs, Student Housing and Dining Services (“SHDS”) has a direct impact on student life at UC Davis, providing essential housing, dining, and academic support services. UC Davis manages 33 residence hall buildings and one apartment community¹ to service incoming students. SHDS also manages four dining commons and four retail dining locations. Support services offered to students range from Academic Advising Centers, First-Year Aggie Connections which is a program meant to help students feel engaged and connected to peers and campus resources, and Residence Hall Intramural Leagues for which SHDS subsidizes the cost of participation for all students living in approved student housing units.

SHDS’s FY19 budget consists of $120 million in revenue from housing and dining services, $90 million in operating expenses, and $30 million in capital expenses. The Business and Financial Services unit in SHDS is responsible for the unit’s financial planning and budgeting process.

Purpose and Scope

The purpose of this audit was to review SHDS’s business operations, including rate setting procedures and planning processes. We also performed a limited scope review of some human resources functions, including turnover and retention. Our review was focused on four primary objectives:

1) Review the status of recommendations issued by the Chancellor’s Affordable Student Housing Task Force that were assigned in part to Student Housing and Dining Services.
2) Review the budget and planning process, including factors that drive the planning process, such as rate setting procedures and planned housing projects.
3) Assess status of reserves and perform benchmarking to other University of California campuses.
4) Analyze staff turnover in order to identify any retention issues.

Our scope was limited to housing operations. We included dining services on a case-by-case basis, depending on the following factors: the nature of the activity under review, the documents available for review, and the feasibility of separating dining operations from our analysis.

Conclusion

We concluded that the SHDS planning and rate setting process is sound. We identified that the main drivers behind Student Housing and Dining Services’ planning process are 1) servicing students through providing affordable housing options and 2) planning for future projects while

¹ This community is known as Solano Park. Seven other apartment communities are offered to students; these are master leased in the City of Davis or in privatized housing areas on campus.
paying off current debts and construction costs associated with existing or in-progress projects. Regarding the first driver, SHDS’s annual rates\(^2\) are within $1,000 of the systemwide average, evidencing its commitment to providing affordable housing options to students. Regarding the second driver, SHDS maintains a rolling ten-year forecast covering capital expenses for all existing and planned projects within its portfolio. The ten-year forecast covers debt service and maintenance costs for existing projects, as well as estimated construction costs for current and planned projects. In FY20, SHDS expects to receive funds associated with a lawsuit\(^3\); there is a tentative agreement to settle the litigation for $26 million, subject to court approval.

We also conclude that improvements can be made in the following areas: Student Affairs’ documentation in support of status updates to the task force recommendations; SHDS’s documentation of processes for internal guidance that will include a plan to address compliance with a new law impacting housing and meal plans; and development of a strategic plan that will guide SHDS’s overall planning process, with an emphasis on reserves planning.

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\(^2\) Constitutes Residence Hall rate of room and board for FY19. Data provided by SHDS.

\(^3\) After discovering pervasive water intrusion at one of its housing projects (Tercero Phase 3), SHDS initiated repairs in 2017 and filed an action against construction and insurance companies in 2018 to recover damages that were incurred as a result of claimed design, construction, and product defects.
### SUMMARY OF OBSERVATIONS

<table>
<thead>
<tr>
<th>Obs. No</th>
<th>Brief Observation</th>
<th>Owner</th>
<th>Management Corrective Action</th>
<th>Completion Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>19-03.A</td>
<td>There is currently no documented process for updating the Student Housing Task Force recommendations. The current, informal process does not include a step to attach relevant supporting documentation to verify the updates.</td>
<td>1 Student Affairs</td>
<td>The Basic Needs Committee Advisory Board will develop a process for updating recommendations. At a minimum, the process will include a step to attach supporting documentation to verify status updates and/or justify why the board will no longer pursue completion of a recommendation.</td>
<td>12/1/2019</td>
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<tr>
<td>19-03.B</td>
<td>Student Housing and Dining Services Business and Financial Services has outlined changes to its budget and planning process and should document these changes following discussion with appropriate Student Housing and Dining Services staff. SHDS plans to address the impact of AB 1961 (Education Code Section 69503.6) in order to promote compliance.</td>
<td>1 Student Housing and Dining Services</td>
<td>Student Housing and Dining Services will document for internal guidance all changes made to the Business Plan document and its budget planning process. These changes must be vetted with appropriate management in Business and Financial Services.</td>
<td>12/1/2019</td>
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<tr>
<td></td>
<td></td>
<td>2 Student Housing and Dining Services</td>
<td>Student Housing and Dining Services will determine messaging to all incoming residence hall students regarding room and board fees being separated on the payment schedule and billing.</td>
<td>11/1/2019</td>
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<td></td>
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<td>3 Student Housing and Dining Services</td>
<td>Student Housing and Dining Services will determine initial allocation of room and board fees, for initial meeting with Student Affairs and Budget and Institutional Analysis.</td>
<td>1/1/2020</td>
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<td></td>
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<td>4 Student Housing and Dining Services</td>
<td>Student Housing and Dining Services will finalize allocation of room and board rates, for publishing online and billing in August 2020.</td>
<td>5/1/2020</td>
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<tr>
<td>19-03.C</td>
<td>Student Housing and Dining Services' strategic plan was last updated in 2014.</td>
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<tr>
<td>1</td>
<td>Student Housing and Dining Services</td>
<td>Student Housing and Dining Services will complete a strategic plan. The plan will be tailored to align with the UC Davis Strategic Plan To Boldly Go. The plan will include specific and measurable objectives and discuss updated initiatives and overall governing philosophy.</td>
<td>5/1/2020</td>
<td></td>
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<tr>
<td>2</td>
<td>Student Housing and Dining Services</td>
<td>Student Housing and Dining Services will establish and document a process whereby it will regularly review and update its strategic plan.</td>
<td>5/1/2020</td>
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</table>
Objective 1: Review the status of recommendations issued by the Chancellor’s Affordable Student Housing Task Force that were assigned in part to Student Housing and Dining Services.

Conclusion: The task force recommendations are assigned to various campus units, including units outside of Student Affairs. These units collectively have completed the four highest priority recommendations; the remaining recommendations are completed, sufficiently in-progress, or cannot yet be completed due to external factors. SHDS has partial responsibility for only two of the 19 recommendations. We found that there is an opportunity for Student Affairs to improve its process for providing updates on the recommendations, including maintaining documentation that supports each status update.

In February 2018, the UC Davis Chancellor appointed a Student Housing Task Force ("the task force") charged with assessing the current climate of student housing and making recommendations for improvement. As a result of its review, the task force issued 19 recommendations ranging in scope from establishing an ombudsperson or call line to support students facing landlord issues to increasing the housing supply and prioritizing affordable designs in new campus housing.

The responsibility of performing on the recommendations falls on various campus units, such as Student Affairs, Real Estate Services, Financial Aid, and SHDS. Specifically, two of the 19 recommendations are assigned in part to SHDS. Updates on behalf of SHDS are provided by the Director of Residential and Hospitality Services, who currently also represents SHDS on the Basic Needs Committee. Progress on the recommendations is recorded on a shared web-based document. Updates to the Chancellor are provided by the interim Vice Chancellor for Student Affairs.

We found that the four highest priority housing recommendations have been completed. Of the remaining recommendations, four low- to mid-term priorities have been completed and eleven are in-progress or cannot be completed due to external factors. While progress is sufficiently documented in the shared file, we found that the most recent updates were provided three to four months ago and the shared file does not include a location to store documents that support the status updates, including documentation to support that a recommendation has been successfully completed. Moreover, it is prudent to maintain documentation for recommendations that are no longer feasible to implement, in order to promote transparency and accountability to those most directly impacted by housing issues.

**Recommendation**

We recommend that Student Affairs document a process for updating recommendations. The process should include a step to attach relevant supporting documentation to verify 1) status updates and 2) why units have made a decision to no longer pursue completion of a recommendation.

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4 Two other task forces were appointed to review matters related to food access and security and mental health services.
5 Oversees implementation of task force recommendations related to student housing, food access and security, and mental health services. The committee will discharge at the end of FY19 and will be replaced by a permanent Basic Needs Committee Advisory Board, which is set to convene in August 2019.
Management Corrective Action

1. By December 1, 2019, the Basic Needs Committee Advisory Board will develop a process for updating recommendations. At a minimum, the process will include a step to attach supporting documentation to verify status updates and/or justify why the board will no longer pursue completion of a recommendation.

Objective 2: Review the budget and planning process, including factors that drive the planning process, such as rate setting procedures and planned housing projects.

Conclusion: Student Housing and Dining Services’ Business and Financial Services unit has made improvements to its planning process in recent years, including restructuring its chart of accounts and refining its budgeting strategy to more accurately reflect current and ongoing expenses. We found an opportunity for improvement in developing an internal guidance document that addresses these changes. This document should also address how to implement Assembly Bill 1961, which went into effect this year. We found that UC Davis housing rates appear reasonable and are within range of systemwide average rates.

a. Budgeting Process and Variance Analysis

Student Housing and Dining Services’ budget and planning process begins in December and, following budget calls to managers, labor budget distribution, and presentation to units such as Budget and Institutional Analysis and Finance, Operations and Administration, a final budget is completed by the end of May. For future housing projects, SHDS maintains a Student Housing Portfolio Plan that outlines planned projects. Our review demonstrated that these projects will feature higher density spaces allowing for the addition of 5,600 beds by 2022.

<table>
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<tr>
<th>Housing Project</th>
<th>Additional Beds</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Green at West Village, Phase 1</td>
<td>1,000</td>
<td>2020</td>
</tr>
<tr>
<td>The Green at West Village, Phase 2</td>
<td>2,300</td>
<td>2021</td>
</tr>
<tr>
<td>Shasta Hall</td>
<td>800</td>
<td>2021</td>
</tr>
<tr>
<td>Orchard Park Graduate and Student Family Housing</td>
<td>1,500</td>
<td>2022</td>
</tr>
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To assess the effectiveness of its planning procedures, we performed a high level budget-to-actual analysis of SHDS finances for FY16-18. Despite a robust planning process, we identified some trends demonstrating overbudgeting of expenses:
In FY16, capital expenses were budgeted at $27.4 million compared to actuals of $22.3 million. This variance occurred primarily in “major maintenance expenditures” which was budgeted as $4 million but the actual cost was $1.3 million.

In FY17, total operating expenses were budgeted at $75 million compared to actuals of $70 million.

We reviewed these and other significant variances with Student Housing and Dining Services and found reasonable explanations and/or noted that improved budgeting practices have now been established. The $5 million variance in FY17 was explained as a result of lack of detailed historical financial reporting to rely on for future budgeting. SHDS has since developed profit and loss variance reports that are run monthly and reviewed. We reviewed this and other changes being developed by SHDS to ensure more accurate reporting. These changes include amendments to the current Business Plan document that is used to project future costs and further participation from Business and Financial Services, in order to more accurately estimate numbers of beds for the next fiscal year.

b. Rates

A key part of the planning process includes assessing, and increasing as necessary, the rate of room and board in Residence Halls and Student Housing Apartments. Rates are socialized, meaning all students are charged the same rate depending on the selected room and board package. In FY20, room and board is projected to generate over $107 million in revenue (~89% of the expected $120 million total revenue). We reviewed the UC Davis rate increase and found that it is consistent with the rate increase at other campuses. For FY20,

6 All apartment rates are based on the net expenses to master lease these properties, with the exception of Solano Park, which is directly owned and operated by SHDS. Solano Park rates have been held with no increases since FY14 in order to satisfy SHDS’s goal of providing affordable accomodations to grad students and families.

7 Room options include studio (apartments only), single, double, or triple occupancy. Meal plan options include access to Dining Commons for five or seven days a week. Residence halls are charged at a lower rate than apartment communities.
the rate is projected to increase by 3.45%, which aligns with the systemwide median of 3.45%.

c. Assembly Bill 1961

Student Housing and Dining Services’ planning process includes steps to ensure compliance with a new law that went into effect in 2019. Assembly Bill 1961 (“AB 1961”) requires institutions of higher education to list separately the costs of institutionally-operated student housing and meal plans. AB 1961 has since been added to the Education Code as Section 69503.6.

Student Housing and Dining Services plans to implement AB 1961 in fall of 2020. SHDS faces challenges in implementing this bill, notably that some dining and housing costs are co-mingled, making it difficult to attribute and divide costs.

Recommendations

We recommend that SHDS’s changes to the Business Plan document and its budget planning process be vetted with appropriate Student Housing and Dining Services management in Business and Financial Services and documented for internal guidance. We also recommend that SHDS continue to assess the impact of AB 1961 as codified in Education Code 69503.6 and develop a process that will guide implementation of practices to promote compliance.

Management Corrective Actions

1. By December 1, 2019, Student Housing and Dining Services will document for internal guidance all changes made to the Business Plan document and its budget planning process. These changes must be vetted with appropriate management in Business and Financial Services.
2. By November 1, 2019, Student Housing and Dining Services will determine messaging to all incoming residence hall students regarding room and board fees being separated on the payment schedule and billing.
3. By January 1, 2020, Student Housing and Dining Services will determine initial allocation of room and board fees, for initial meeting with Student Affairs and Budget and Institutional Analysis.
4. By May 1, 2020, Student Housing and Dining Services will finalize allocation of room and board rates, for publishing on line and billing in August 2020.

Objective 3: Assess status of reserves and perform benchmarking to other University of California campuses.

Conclusion: First, we found that current SHDS reserve levels appear prudent and align with overall campus reserve guidelines. Second, we could not complete the benchmarking portion of this objective, as we learned that campuses operate in such different environments that comparisons of capital expenses, which impact reserve levels, are generally not reliable. We identified an opportunity for SHDS to improve the planning regarding its reserves by updating its strategic plan.

Annually, SHDS updates its ten-year business plan. This ten-year plan provides for the allocation of reserves for renovations, upgrades, and new construction projects. Current major
construction projects include the Emerson Redevelopment (total investment of $110 million) and Tercero Dining Commons 2 (total investment of $33 million).

**a. Assessment of Reserves**

<table>
<thead>
<tr>
<th>Student Housing and Dining - Funds Available at Year-End</th>
<th>FYE16</th>
<th>FYE17</th>
<th>FYE18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds available</td>
<td>$10,304</td>
<td>$10,412</td>
<td>$4,999</td>
</tr>
</tbody>
</table>

The chart above shows that SHDS year-end funds available have declined over the past three recent fiscal years. This trend is slightly misleading, however, because SHDS has accessed reserves to fund maintenance repairs associated with water intrusion damage at Tercero Phase 3. Throughout FY18-FYE22, expenses for repairs and other damages at Tercero are expected to total approximately $31 million, with $5.1 million having been incurred in FY18. Had these FY18 unexpected repairs of $5.1 million not been necessary, reserves would have been approximately $10 million for each of the three years presented above.\(^8\)

Reserves of $10 million represent approximately 10%-15% of recent annual SHDS operating/capital expenses and appear prudent and within campus guidelines. The recent emergency involving Tercero Phase 3 demonstrates the importance of SHDS maintaining a reasonable level of reserves.

Planning for reserves is a component of the SHDS strategic plan, which has not been updated since 2014. In FY14, SHDS capital expenses were $10 million, whereas the current ten-year forecast projects FY28 capital expenses of $48 million. The expected continuing increase of construction and related costs warrants an update to the Strategic Plan. Additionally, beginning with FY20, SHDS will further refine its budgeting practices to distinguish “planned” annual additions/uses to/of reserve balances from “unplanned” annual additions/uses. This planning for reserves should be linked with efforts to update the overall SHDS strategic plan.

**b. Benchmarking**

We did not complete this objective, as discussed next. We made inquiries of personnel at SHDS and Institutional Analysis in an attempt to identify reliable, comparable reserves data from other UC campuses to complete our benchmarking objective. Ultimately, we learned that direct comparisons across UC campuses are not informative because of differences among campuses regarding capital expenses, which directly impact reserves/reserve trends at each campus. As alluded to in Objective 2, student housing room and board rates do not vary significantly across the system; however, the same is not true for capital expenses. These vary due to factors such as local housing environments, land availability, campus size, and budget constraints; these factors impact the level of ongoing construction costs/debt service at each campus, affecting reserve balances and requirements.

\(^8\) Note that SHDS expects to recover $26 million from tentative settlement of a recent lawsuit; see footnote 3.
Recommendations

We recommend that Student Housing and Dining Services update its 2014 strategic plan and establish and document a process whereby it will be regularly reviewed and updated.

Management Corrective Actions

1. By May 1, 2020, Student Housing and Dining Services will complete a strategic plan. The plan will be tailored to align with the UC Davis Strategic Plan To Boldly Go. The plan will include specific and measurable objectives and discuss updated initiatives and overall governing philosophy.
2. By May 1, 2020, Student Housing and Dining Services will establish and document a process whereby it will regularly review and update its strategic plan.

Objective 4: Analyze staff turnover in order to identify any retention issues.

Conclusion: We found that the staff turnover rate in Student Housing and Dining Services can mostly be attributed to a high density of student employees in the workforce. SHDS has created a new director position to address retention issues.

Student Housing and Dining Services’ turnover rate over the past five years was 46%. About 85% of turnover can be attributed to the departure of student employees. To address retention of non-student staff, SHDS has created a new director position titled Director of Inclusion and Organizational Development. Roles and responsibilities for this new position include collecting retention and exit interviews from staff to collect information on the likelihood of staying on as staff and why they chose to leave their positions. Collecting and reviewing this information will assist SHDS in evaluating workforce climate.

Recommendations

No recommendations are warranted for this objective.