The CSU, Chico Research Foundation  
California State University, Chico

Minutes for the Meeting of the Board of Directors  
June 4, 2009:  2 p.m. –  4 p.m.  
Kendall Hall, Room 103

MEMBERS PRESENT:  
Drew Calandrella, Jud Carter, Rick Coletti, Jane Dolan, Sandra Flake, Lori Hoffman, Richard Jackson, Rebecca Lytle, Paul Zingg

MEMBERS ABSENT:  
Richard Ellison, Jessica French, Katie Milo

ALSO PRESENT:  
Sam Allen, Dave Daley, Dan DeWayne, Karen Finley, Jennifer Ryder Fox, Brian Terhorst, Fred Woodmansee,

A. CALL TO ORDER AND INTRODUCTIONS  
Provost Flake called the meeting to order at 2 p.m. She again welcomed Sam Allen, a Junior majoring in Chemistry also involved in research. Sam is a prospect for the student member position on the Board and attending as a guest.

There were no additions to the agenda.

B. PUBLIC COMMENTS  
The Chair asked if there were any public comments and there were none.

C. APPROVAL OF MINUTES  

Action Taken: The minutes of the Board meeting held on March 2, 2009 were approved (with one abstention) subsequent to the correction of a typo on page 2 (motion by Carter, second by Coletti).

D. FOUNDATION PRESIDENT'S REPORT  
Provost Flake deferred to the President so he could address the great financial challenge facing the State.

E. UNIVERSITY PRESIDENT’S REPORT  
President Zingg spoke about the “grim” State budget situation, with $1.9B scheduled to be slashed from higher education. The Governor has proposed a $630M cut to the CSU system, which translates to a $25M (18%) cut to our campus budget in 2009-10. The $630M reduction is on top of unfunded needs of $550M, for a total of $1.2B. This is the most
challenging situation to face higher education in California since the Master plan was developed in 1960.

This predicament will frame the conversations we have today about the Foundation’s role in helping the campus to manage and steward resources. We will be looking to every source of revenue and support, including the Research Foundation, and University Foundation and the Associated Students, to help mitigate the effects of the financial challenges.

F. AMENDED BYLAWS
The Provost reported that she proposed the Bylaws be amended to provide additional structure regarding Board of Directors membership, including establishing term limits. Providing for the rotation of Board membership will refresh the Board, and provide for continuity without the unspecified, open-ended commitment which exists now.

The amendments proposed by Cabinet to Article V, Section 3 of the Bylaws provide that:

- The number of voting Directors shall not be less than ten.
- Appointed voting Directors shall serve three-year terms.
- Directors who are not serving as a result of position shall initially serve for a one, two, or three-year term as designated by the University President, and thereafter be appointed for staggered three-year terms.
- An exception is the Student member who shall be appointed annually for up to a three-year term.
- After a hiatus of at least one year, a former Director will be eligible for another three-year term.

The requirement to have at least ten members sets the minimum at the number of members currently serving on the Board. The effect of this structure is that we would have one new member from the community each year. Rebecca Lytle said it was useful to have a multi-year appointment, because it takes the first year to figure things out and get oriented.

Jane Dolan noted that the proposed term limits affect the community members but not most of the University members. She noted her extended service on the County Board of Supervisors which has not been constrained by term limits. Since Board members essentially serve at the pleasure of the President (since he appoints them), she felt it would be less artificial and more straightforward to simply not reappoint someone the President felt was not a useful contributor.

The President commented that the new structure balances the need for new blood with the value of experience and historical knowledge. He
noted that the opportunity for perpetual service exists – so long as there is a one-year break. Jud Carter remarked that he thought the rotation of Board members was a good idea, and the proposed changes provide more formality and structure.

The Provost said she felt it was also important to look at expanding the number of Board members, and thus the connections with community, faculty and students.

The Provost noted that this is an Introductory Item which, in accordance with the Bylaws, cannot be acted on until the next meeting in September.

G. COLLEGE PARK PROPOSAL
Richard Jackson reported that Lori Hoffman and Drew Calandrella have proposed a change in the long-standing arrangement between the Foundation and University Housing regarding the College Park houses purchased by the Foundation for the purpose of sale to Housing. This change is to be memorialized in a Memo of Understanding providing, the main points of which are outlined on page 53 of the Budget Packet for 2009-10:

- Housing will pay, as of June 30, 2009, the accumulated interest, administrative fees, and the cost of minor structural repairs needed to make the houses rentable, less the net profit the Foundation generated on the rental program.

- When the University (i.e., Housing Fund and/or the Parking Fund) purchases the houses, the price paid to the Foundation will be the original purchase price paid at escrow for the 12 houses, a total of $3,811,781.

- In the interim until the Houses are sold to the University, Housing will pay simple interest on a semi-annual basis to the Foundation on the original purchase cost of the properties.

- The Foundation will, at its discretion and at its own risk, determine if it wishes to rent the properties or invest funds in further improvements necessary to make them rentable.

- As of July 1, 2009, the University will assume full responsibility for the security and care of any vacant houses, including yard care. Housing will take care of maintenance matters, and the University Police will provide security.

This proposal simplifies the financial arrangements, and transfers to the Foundation both the risk and opportunity for return on any future rental of the College Park houses.
The University has requested that the Foundation waive the .5% additional interest over LAIF (the State’s pool’s rate of interest on short term money) that Business and Finance originally agreed to pay on the Foundation line of credit used to purchase the houses. The Provost and management feel this is a fair request. This amounts to $67,006 in interest that has been booked over the years (from 1999 through 6/30/09), and will come out of the Foundation’s fund balance.

**Action Taken:** The Board unanimously approved waiving the additional .5% over LAIF that has been charged over the years on the Foundation funds utilized for the College Park project (motion by Carter, second by Dolan).

H. 25 AND 35 MAIN STREET PROPOSAL

Richard Jackson presented a proposal by Cabinet that changes the way these two buildings will be paid for going forward. (See pages 15-16 in the Budget Packet for 2009-10 for additional explanation.)

In 1999 and 2002 the University negotiated the purchase of the 35 Main and 25 Main Street buildings to ease the campus space shortage, and asked the Foundation to float a 30-year bond issue to fund the purchases and improvements. Since the time the bonds were issued, the University has back-filled the Foundation’s purchase of these two buildings by paying the debt service on both buildings and the operating costs on 25 Main Street. The Foundation has been picking up the operating costs of 35 Main.

Recently, the University has had to rethink its use of resources (as President Zingg graphically represented at the beginning of the meeting), and how it spends its critical and declining resources.

The Cabinet has proposed that over 4 years on a phase-in basis, beginning in 2009-10, the Foundation assume responsibility for the costs the University has been paying on these two buildings. This year the additional cost to the Foundation is $50K (which has been built into the proposed budgets), the next year an additional $100K, the following year another $100K, and in 2012-13 an additional $75K – for a total of $325K per year.

Distinct from that arrangement, beginning this year the University has agreed to an annual payment of $50K or whatever other amount is determined to represent RESP’s share of the cost of residing in 25 Main (a matter still under analysis and discussion).

It will be a challenge to figure out ways to generate revenues from use of the buildings so that the Foundation will be able to pay for the new building
costs that are its responsibility. For example, one revenue source is building tenants who are supported by grants and contracts that recover indirect at the full Federal rate (which includes funds to cover facilities costs). Some projects will have to beef up their fundraising so they can contribute something to the cost of the space they occupy. Some long-standing arrangements will have to be renegotiated – such as the arrangement with the AS for the CLIC space in 25 Main. We may have to consider some commercial uses.

The University turns to the Research Foundation in challenging times like this because, unlike the University, the Foundation has the ability to generate outside funding and additional revenues. The value of the auxiliary is its ability to morph and reinvent itself to meet the University’s needs. The effectiveness of its economic engine was seen in the financial results summarized on pages 8-9 of the Budget Packet.

By 2012-13, the estimated costs of the 25 and 35 Main buildings will be in the $550K range (see p. 16 of the Budget Packet) – which is a large number relative to our net income. This presents a challenge to the Foundation as it plans strategically for the future, and we will need to change the way we do business and the kinds of things we support. Due to the phase-in period, we have time to be creative. We need to look at our revenue sources (e.g., increasing the indirect recovery rate), our opportunities for cost savings, and efficiencies in the use of space. These are not quick fixes – they involve culture changes and changes to past practice.

Management is committed to assisting the University by picking up 25/35 Main costs. However, it also remains committed to continuing programs important to the Foundation’s mission – such as supporting research through an incentive plan. The Provost would even like to grow the incentive plan.

I. PRESENTATION AND APPROVAL OF OPERATING BUDGETS FOR 2009-10

General Fund Budgets
Richard Jackson summarized the presentations and budget proposals in the Budget Packet for 2009-10. The first section contains useful orientation materials, outlining the purpose and financial scope of the Foundation. The financial summary on page 8 shows the dramatic increase in financial performance over the past four years, which in turn enabled the Foundation to fund the Incentive Plan at the $400K level.

Part Two beginning on page 10 demonstrates the way Foundation resources have been put to use supporting research and faculty, and shows how money has flowed between the University and Foundation and
what that money has supported. This year’s budgets propose some changes in these past models and a different way of thinking about things. The Board allocations (page 13) show how General Fund discretionary net income was spent in the 2008-09 year.

Page 20 outlines the changes in the way the budgets are formatted this year. Management has:

- Updated cost allocation studies, so that Administration Office costs and “shared costs” could be allocated to areas in proportion to their benefit from services;
- Constructed separate budgets for RESP and the Administration Office – each budget now shows all the costs associated with generating the revenues for that area;
- Included costs in the appropriate operating budgets that previously were paid out of net income;
- Included facilities use costs for 25 and 35 Main in the Administration Office operating budget.

The Foundation Administration budget is on page 29. This office acts as a service center, providing financial, HR, risk management and property management services to other areas of the corporation, and it handles relationships with the governing board, campus and Chancellor’s Office. The Administration Office must support itself from the fees it generates for providing these services. In the new format, it is easy to see the cost recovery allocated to the various areas (although in some areas, like property, costs are currently not being completely recovered). Note in the expense section the new category for the Administration Office’s share of the cost of residing in the 25 Main Street facility.

On page 41 is the budget for the Office of Research & Sponsored Programs. The estimate of indirect income is on the conservative side because of uncertainty about the funding of State grants. RESP’s “space costs” for residing in 25 Main have been offset by the $50K contributed by the University (which did not cover all the allocated costs). Note that with the new format, RESP’s share of Administration Office costs (such as HR services, etc.) are now included in RESP’s expense budget.

An overall picture of the General Fund is shown on the chart on page 24, called “Discretionary General Fund Net Assets.” Total General Fund Net Assets on our financial statements at the end of 2008-09 are a negative $2 million. As discussed before, this is because $3.8 million of Foundation General Fund assets are invested in College Park properties (i.e., the assets were transferred to the Plant Fund). Projected net income
from RESP and the Administration Office for 2009-10 is about $618K, which is offset by $144K in operating costs for 35 Main and $92K in unrecovered 25/35 Main costs. Net income generated from the rental of the College Park houses to students adds to the General Fund’s net resources.

Preliminarily, we project net income of about $400K to be available for spending or to add to Discretionary Net Assets. As seen from the potential Board allocations listed on page 25, about $491K would be required to continue the spending programs the Foundation has supported in recent years.

Because of uncertainties surrounding the campus budget, and because the Foundation will have better estimates of income and expenses in September, the Provost recommends postponing until the September meeting the consideration of a spending plan for 2009-10.

Management plans to present a draft long-term strategic plan to the Board for consideration in December.

**Action Taken:** The Board unanimously approved the General Fund budgets as presented (motion by Dolan, second by Carter).

**University Farm Business Plan and Budget**
Referring to the presentation in the Budget Packet for 2009-10, Dean Jennifer Ryder Fox and Associate Dean and Farm Manager Dave Daley presented an overview of the Farm’s prior year’s success and challenges, and the Management Plan and financial outlook for the coming year.

In a nutshell, the Farm is doing a better job of education and a more extensive job of serving the community than ever before. There continue to be significant improvements (such as the installation of new modular classrooms and the Cal Water hookup). The Farm is doing better in every area except orchards (which they are in the progress of replanting). The proposed 2009-10 budget shows a net loss of $76K because of conservative market projections for both livestock and crop units.

The Farm management wants to continue to pursue the concept of a farm store and a creamery.

**KCHO’s Business Plan and Budget**
UPE Director Dan DeWayne and Station Manager Brian Terhorst presented next year’s plans with respect to the campus radio station – which operates 24 hours a day, 365 days a year, and has done so for 40 years. It has 1000 listeners a day.
Brian Terhorst moderated a PowerPoint presentation covering such subjects as: the development of a strategic plan and new mission statement; highlights of the 08-09 year – including the 40th Anniversary celebration; the completed Station History project; and the Donor Acknowledgment event. Accomplishments included developing the North State news department, expansion of the internship program, a membership survey which resulted in revisions to the station’s program schedule, audio downloads available on the internet, a KFPR studio upgrade, and paying down the loan to Academic Affairs.

Plans for 2009-10 include development of a strategic plan, retooling the draft of a 5-year business plan, taking advantage of opportunities presented by new technology and delivery systems, and planning for a Development Director. The station projects a break-even budget for the coming year.

[Note: The figures on page 88 for the column entitled “Actual Experience, 2008” are incorrect, and a corrected version will be provided.]

**Action Taken:** The Board unanimously approved as presented the Enterprise Fund budgets for the Farm and KCHO (motion by Dolan, second by Lytle).

J. PROGRAM REPORTS

**Eagle Lake Field Station Update**
The Provost reported on on-going discussions with the College of Natural Sciences and Foundation management about the feasibility of continuing with some sort of program or another at the Field Station. The current program cannot cover its costs, and UC Davis has given notice that it cannot continue its contract to rent the facility. Expending more money at this time does not seem a wise investment.

**Environmental Reserve Update**
As reported at the last meeting, there is a plan to use grant money to acquire three parcels of land totaling 320 acres to be incorporated into the Big Chico Creek Ecological Reserve. Jeff Mott, Director of the Reserves Program, submitted a $250K grant to the Sierra Nevada Conservancy. The land will protect the integrity of the BCCER by providing an alternative location to meet our commitment to manage a hunting program, and will prevent residential development contiguous to the BCCER. The property is appraised at $350K. Other partners, such as the California Deer Association, could provide the remaining 100K needed to purchase the land from the Bureau of Land Management.
Jackson noted that $74,899 remains in the Reserves Infrastructure Fund. Jeff Mott has requested permission to use the funds for additional improvements to the Henning house (e.g., finish the siding) and to construct a wood shed.

K. REPORT BY VICE PROVOST FOR RESEARCH

**Update on Suspended State Contracts**
Katie Milo referred to the one-page handout containing her written report. None of the suspended State contracts has come back on line. Three programs are on the chopping block, which amounts to $2 million in grant funding and affects 31 employees. The Passages program has been severely impacted. Such a hit has ricochet effects – such as affecting the composition and feasibility the Foundation’s health insurance plan.

**New Grant and Contract Activity**
Stimulus funding is providing opportunities for proposals from engineering, computer science and natural sciences faculty. Up to three proposals will focus on research and training, and one will seek infrastructure funds for a research lab in the College of Natural Sciences.

**Quarterly Report on Special Set-ups of Grants and Contracts**
As of the end of May, 12 projects were on special set-up with expenditures totaling $119K, but we have since received a check from the funding agency covering $71K of those expenses.

L. REPORT BY EXECUTIVE DIRECTOR

**Retirement Plan Change: From 401(k) to 403(b)**
Richard Jackson asked Associate Executive Director/HR Director Karen Finley to summarize the information sent with the agenda on the change in the Foundation’s retirement plan platform. Karen emphasized that the change was not market motivated. Rather, recent changes in pension law made the change advantageous to both the Foundation and its employees.

Considerations included differences in discrimination testing requirements with respect to highly compensated employees and with respect to students working more than 1000 hours. The effect of the change is that career employees to be able to defer a greater amount to their retirement accounts. The change also means the Foundation with have to administer only one retirement plan instead of two. There are no adverse impacts on the employee. The change from one platform to the other will be transparent to employees.

**California Department of Aging Agreements**
Richard Jackson reported on additional contract amendments for which the CDA wanted Board authorization when that authorization had already been given.

As discussed at the last meeting, the Board’s approval has already been given to the Vice Provost for Research and the Director of Sponsored Programs to execute all Contracts and Grants documents on behalf of the Foundation that pertained to sponsored research. This would include any and all CDA contracts, and any modifications to those contracts.

**Annual Report to the Academic Senate**
The report was mailed as part of the agenda packet.

**“BoardEffect”: On-line tool for Boards of Directors**
The University Foundation is utilizing an on-line tool designed for communication to and between Board members. It provides easy access to meeting schedules and agenda materials, organizational history, and archived records, and permits discussions between Board members. The meeting materials can be projected at the meeting or on one’s laptop, which saves on printing costs. The University Foundation has purchased a license and is giving it a trial run and working out bugs. It may also prove a useful tool for other Boards, such as the Research Foundation and Alumni.

**K. ADJOURNMENT**

The Provost adjourned the meeting at 3:50 p.m. with the consent of the Board.

Respectfully submitted,

Richard Jackson
Secretary