

The CSU, Chico Research Foundation

California State University, Chico

Minutes for the Meeting of the Board of Directors

June 15, 2010: 3 – 5 p.m.
Kendall Hall, Room 103

MEMBERS PRESENT:

Drew Calandrella, Jud Carter, Jonathan Day, Jane Dolan, Sandra Flake, Lori Hoffman, Richard Jackson, Rebecca Lytle, Katie Milo, Paul Zingg

MEMBERS ABSENT:

Sam Allen, Rick Coletti, Richard Ellison

ALSO PRESENT:

Carol Sager, Fred Woodmansee

A. CALL TO ORDER AND INTRODUCTIONS

Provost Flake called the meeting to order at 3 p.m.

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 5, 2010 were unanimously approved (motion by Drew Calandrella, second by Jud Carter).

D. FOUNDATION PRESIDENT'S REPORT

Provost Flake deferred her report until the next meeting due to the lengthy agenda.

A. UNIVERSITY PRESIDENT'S REPORT

On behalf of the Foundation Board and the University, President Zingg thanked Jud Carter for his 13 years of service as a member of the Research Foundation Board. Jud was an inaugural member of the Board at the creation of the Research Foundation in March, 1997, and his term will expire at the end of August. His leadership insights and personal support of the university over the years have been invaluable.

The President updated the Board on the university budget, mentioning the likely fee increase for students and the Governor's proposal to restore

about \$360M in funding to the CSU, which will come with an expectation of enrollment growth. Currently, the campus is under a mandate to reduce enrollment, which felt like we were being penalized for doing a good job of serving our region and moving students swiftly to a degree. We will have 600-700 fewer students in the fall, which translates to over a \$5M loss in revenues in our expanded dorms.

F. APPROVAL OF IRS FORM 990 TAX RETURN

Board members electronically received copies of the Form 990 for review before it was filed with the IRS. This was the first year that staff prepared the new form, which is onerous and labor-intensive in its compliance requirements. The prior two-page form amounted to a restatement of the financial statements, whereas the new 50 -page return looked at where the organization's funds came from and how they were used, potential Board member conflicts of interest, and the nature of the Foundation's relationship to the institution it supports. It is part of the new culture of transparency and accountability. Richard Jackson asked for the Board's formal ratification of the document.

Action Taken: In accordance with management's recommendation, the Board ratified the IRS Form 990 Tax Return prepared by management and Matson & Isom (motion by Jud Carter, second by Jane Dolan).

G. PRESENTATION AND APPROVAL OF OPERATING BUDGETS FOR 2010-11

Presentation of the University Farm Management Plan and Budget (Enterprise Fund)

Dean Jennifer Ryder Fox and Associate Dean and Farm Administrator Dave Daley reported that the Farm finished the year better than the anticipated, with a \$40K loss instead of a \$70K loss (and they even made a profit if you don't count depreciation). It was a banner year for visitors and community events, and Farm activities involved 700 students a week. Another highlight was the partnership with the California Olive Ranch, which provided a new educational opportunity. It exposed students to a different type of crop, and offered hands-on research work with faculty and staff. The Farm is maintaining a positive cash flow.

A \$40K loss is projected for next year – but that doesn't include a \$21K grant for greenhouses. The bottom line will move more to the positive as the orchards mature. The Farm is always a financial balancing act and draws on both university and Foundation resources to get the job done. The university helped this past year with the purchase of a replacement refrigeration unit in the instructional meats lab. Every year there are more and more regulations (e.g., in the small organic dairy operation), and compliance is costly.

Action Taken: Board acted unanimously to approve the Farm budget as presented (motion by Drew Calandrella, second by Jud Carter).

Presentation of the KCHO Budget (Enterprise Fund)

Station Manager Brian Terhorst presented the year's management report and budget. In spite of the economic climate, the station is meeting its membership goal – and in addition raised a separate \$28K for the Haiti disaster relief effort. However, business community support (underwriting) is down \$20K. Stabilization grants for public broadcasters helped to balance revenues, and expenses were controlled (e.g., capital expenditures postponed) so that the station would end in the black. The station was able to pay down its debt to Academic Affairs, this year making the third of five \$20K installments. The changes to the station's program schedule are paying off as listener support continues to grow.

The budget for 2010-11 is conservative in its projections, planning for a modest 5% increase in underwriting and freezing wages and travel. The emergency alert system can't be put off any longer. The station is presenting a balanced budget – which doesn't include \$198K in in-and-out grant money that pays for the national programming.

Action Taken: Board acted unanimously to approve KCHO's budget as presented (motion by Jud Carter, second by Rebecca Lytle).

Financial Overview and General Fund Report

Richard Jackson commented that the annual budget booklet includes orientation materials and explanations that make it useful as a resource and reference tool for Board members. For example, the table on pages 6-7 gives an overview of the various Foundation Funds and their purposes, and explains how the money is often restricted for specified purposes.

Indirect Cost Recovery

The discussion on the General Fund projects starts with the big picture and works to the detail of the individual office budgets. The summary report beginning on page 8 notes that average indirect cost recovery is steadily improving – and is now up to 10.89%. However, the overall indirect recovery falls short of covering the Foundation's cost of administering the grants.

Unrecovered Indirect

Katie Milo spoke to the spreadsheet on page 15 which covers the magnitude of the unrecovered dollars – almost \$1.5 million. For example, on grants of \$3.9M in the College of Communication and Education, the indirect recovery is 8.96% or \$352,153. However, the cost of

administering the College's grants is 17% or \$667,912, resulting in a shortfall of \$315,759. This is because the College has service learning and professional development grants that bring the average down.

Many projects have a capped indirect rate, and some come with no indirect – such as the Gateway Science Museum. On page 16 is a listing of the projects in 2008-09 that came with zero indirect. The total contract amount (some of the contracts extend to more than one year) is almost \$12 million. It is hard to say “no” to a faculty member who has a great project that is beneficial to the University, because of a low indirect rate. A lot of grant activity has no or little indirect associated with it, and in this case organizations have to subsidize the cost of administration. Even at a major research institution such as San Diego State, the Foundation's indirect recovery is in the 16-17% range. Carol Sager commented that most private non-profits would kill to get a 17% recovery.

Jackson handed out a bar chart entitled “Revenue Compared to Expense and Unrecovered Indirect” to demonstrate the graphic financial impact of uncovered indirect. This chart projects what the picture would be if administrative costs dipped as a result of losing some Campus Program deposits, and if additional revenues were not brought in to offset the costs of the 25/35 Main building transfer from the university to the Foundation. Expenses are outstripping revenues, at the same time that a large amount of income in the form of unrecovered indirect is not available to help cover program costs. The chart dramatizes the magnitude of the challenge given to us in balancing subsidization of worthy Contracts and Grants with the need to support the 25/35 Main buildings.

Administrative Fees and Investment Income

The Foundation supports itself by means of two main revenue sources. One source is the administrative fees collected for services provided to internal and external “customers.” The other is investment income. Both sources are challenged right now.

If, as a result of recent policy shifts and audit findings, the Foundation transfers Campus Program account deposits to the University, this will reduce both administrative fee income and our available cash.

The depressed economy has taken a severe toll on investment income, which came in \$144K less than budgeted last year. The chart on page 18 of LAIF short-term interest rates shows that rates have fallen from 5% to .5% in the last four years.

Operating Net Income and Board Allocations

Page 10 shows an operating net income projection for the coming year of \$479,126. On page 20 is a proposed schedule of Board Allocations for

2010-11 totaling \$533,167. We will dip into reserves a projected \$31 to continue funding programs at prior-year levels. Last year, we used reserves of \$170K to cover Board Allocations not supported by that year's net income. Obviously, this is not a prudent practice over the long-term, and we need to develop spending priorities that match our ability to generate net income.

With the assumption of increased expenditures for the debt service and operating costs of 25/35Main, Foundation expenses will rise in the years ahead. Richard Jackson distributed a bar chart entitled "Net Income compared to Incentive Allocation and 25/35 Main Contributions." It projects that operating net income will decrease with the expected loss of administrative fee income, that the Incentive Plan commitment will remain constant, and that 25/35 Main costs will increase steadily. This is a worse-case scenario, with net income only at one-third the level of the financial commitments against it – but it illustrates the magnitude of the challenge to increase revenues and reduce expenses.

Increasing Net Income

Hopefully, investment earnings will cycle upward again, but this is dependent not only on the interest rate but also on the size of the cash pool available for investment. RESP is working with the Colleges and faculty to improve the level of indirect recovery in research proposals. The Foundation is also looking at other ways to generate income and control expenses.

On pages 11-12 are the initiatives management is working on or has proposed with respect to 25/35 Main – that is, ways to cut building costs or bring in additional money to replace the revenue stream formerly contributed by the University. These include:

- Consolidate and reallocate office space for efficiency and to bring in additional cost-sharing projects;
- Downsize and relocate Passages to 25/35 Main in order to save the cost of renting community space and to benefit from Passages renting space in 25/35;
- Generate rental income from parking spaces at 25/35 Main;
- Bring outsourced property maintenance in-house;
- Assess a proportional "rent" contribution from the Contracts and Grants projects, KCHO, and other operations. This can be paid from Incentive Funds, fee-generated income, fundraising money, or Department/College discretionary funds. (One possible approach with respect to Contracts and Grants is to have the Colleges pay for space in proportion to their relative amount of unrecovered overhead – i.e., the College's unrecovered indirect as a percentage of the total unrecovered indirect.)

Other possible revenue or cost-saving measures, unrelated to the 25/35 Main buildings, include:

- Bringing storage space in-house, thereby saving money on current storage rental and making money on storage rental ourselves;
- Generating new College Park rental income as a result of renovating houses that we were formerly unable to rent;
- Bring outsourced functions in-house (e.g., College Park property maintenance and landscaping);
- Renegotiate the Eagle Lake property lease to generate some net income (not simply accomplish the maintenance and security of the property);
- Generate rebates from the administration of a CSU Purchase Card used for Foundation project expenses;
- Bring IRS Form 990 tax preparation in-house.

Cash Position

In addition to the programmatic and financial obligations facing the Foundation, there is the issue of cash flow. The Contracts and Grants operation needs cash flow to pay for expenditures which are reimbursed several months in arrears by sponsoring agencies. The dollar amount can be in excess of \$6 million at certain times of the year. The second major use of Foundation cash is the purchase of College Park houses on behalf of the University. This arrangement, intended to be short-term, has resulted in a large amount of cash -- \$3.8 million – tied up long-term in physical assets.

The chart on page 22 demonstrates the cash impact of these two programs at one point in time – at 6/30/09 when the books were closed for the year. The audited financial statements show that the cash required for these two programs is borrowed internally from other Funds of the Foundation. The General Fund borrows the cash needed to cover the College Park investment from the Board Discretionary Fund (\$1.7 million at 6/30/09), and the Sponsored Programs Fund's accounts receivable is covered by borrowing from the Campus Program Fund (\$4.4 million).

If Campus Program account funds are spent by Project Directors or transferred to State accounts, or if Incentive account balances are drawn down, the Foundation may have to borrow funds to bankroll the Contracts and Grants activity.

Carol Sager explained that Campus Programs accounts are largely set up by faculty to support a variety of activities – such as workshops, events, or sales of products and services. The funds are used by university faculty and staff for such purposes as faculty development, to purchase

equipment, or to host a guest speaker. A recent Chancellor's Office audit questioned whether campus programs are inappropriately using university resources for which the university is not being reimbursed. To get a handle on this issue, a survey was conducted of the 500-600 Campus Program accounts to gather information on revenue sources and expenditures. If university resources are being used, the choice will be to reimburse the university or transfer the funds to a campus account. If these funds leave the Foundation, it will be harder to front money for Grants and Contracts.

Opportunities the Foundation is pursuing to convert its illiquid investments and loans into cash include the sale of College Park houses to Housing, and the sale of the Rio Chico house (purchased from the University Foundation) and the Cal Water and Railroad properties (see page 14).

Other Board Discussion on the General Fund budgets

Jackson and Katie Milo briefly walked through the line-item Administrative and RESP budgets and there were no questions.

Lori Hoffman recommended selling the Rio Chico house, currently rented to students, as soon as possible, and Jane Dolan agreed that the market is improving. Dolan also said she would look into the possible opportunities with the City of Chico's Redevelopment funds.

Dolan commented that the amount of detail presented in the budget packet was helpful to the Board.

Action Taken: Board acted unanimously to approve the General Fund budget as detailed in the budget packet (motion by Jane Dolan, second by Jud Carter).

H. PROGRAM REPORTS

Capacity Building Grants: Utilization Report

The Provost reminded the Board that \$100K of the \$400K allocated as Incentive dollars went for Capacity Building – that is, they were to be spent specifically on building capacity for additional research and result in the awarding of additional grants to the campus. Examples of expenditures include travel to visit with funding agencies in Washington D.C., and providing a summer stipend to a faculty member who had not written a grant in the past. Sometimes a team of faculty joined together in a collaborative and interdisciplinary project.

Unexpended funds from the first two years of awards are to be spent by August 1st or they will revert to the pool. New money that will be awarded in the coming year will need to be spent by the end of June next year.

Property Update: Environmental Reserve

Jackson reported that the University has agreed to the terms of the land exchange proposal with the Bureau of Land Management. BLM will now initiate the feasibility report and other preliminary documentation. Two parcels at Eagle Lake Field Station totaling 17.43 acres are being exchanged for BLM parcels adjacent to the Big Chico Creek Ecological Reserve. If the two appraisals are within 20% of each other, then it is a swap. Project Manager Jeff Mott has funding sources lined up if we need to make up the difference. If the Eagle Lake property is worth more than the Butte County property, then it becomes problematic, because BLM won't pay any money.

I. REPORT BY VICE PROVOST FOR RESEARCH

Katie Milo distributed three handouts. The first listed the eight requests entered by faculty for the Research Foundation Scholars Competition, some for assigned time and some to cover operating expenses.

The second handout was "Grants and Contracts Chatter from the Development Specialists." The Development staff in the RESP office gave a short description of their favorite funded research projects or "coolest" submitted proposals.

Katie also reported that project set-ups in advance of receiving funding totaled \$173,027 this quarter, as detailed in the third handout. We needed to proceed with work on the projects and RESP had letters of commitment from the sponsors, so there is negligible risk. We have never had one of these advance set-ups go bad on us.

J. REPORT BY EXECUTIVE DIRECTOR

Chancellor's Office Compliance Audit

Jackson reported that the Research Foundation had only two findings. The first had to do with property inventory recordkeeping. The University Auditor's recommendation is that "the Research Foundation require campus property management operations to communicate dispositions/acquisitions of property and equipment on a quarterly basis."

The other finding recommended a "review of all custodial trust accounts to "determine... which accounts contain state/campus operating funds." These accounts, called Campus Program accounts were explained earlier in the meeting, and are accounts set up by faculty and departments to conduct program activities other than Contracts and Grants.

Annual Report to Academic Senate

A copy of this report was attached to the agenda when it was sent out.

K. ADJOURNMENT

The Provost reported that on September 1, 2010 faculty member Rebecca Lytle will rotate off the Board, and Jonathan Day will begin a three-year term.

The Provost adjourned the meeting at 4:55 p.m. with the consent of the Board (motion by Jud Carter, second by Rebecca Lytle).

Respectfully submitted,

Richard Jackson
Secretary