Finance and Investment Committee

Meeting Minutes
Tuesday, March 8, 2022, 2:00 pm

https://csuchico.zoom.us/j/85370588909?pwd=MzEyZDNBMHRwRDJGN2dUK2xwazBjZz09&from=addon
Meeting ID: 853 7058 8909
Passcode: 187274
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Committee Members Present: Ron Barker, Anita Chaudhry, Bob Kittredge, Ann Sherman

Members Absent: Tod Kimmelshue

Other Board Members Present: Debra Larson

Also Present: Mary Sidney, Vance Kelly, Michele Flowerdew, Dana Pitman

1. **Call to order at 2:00 pm**

Kittredge welcomed the newest FIC member, Ron Barker, to the committee.

2. **Approval of Minutes from December 1, 2021**
   (Chaudhry/Kittredge)
   Motion carried (4/0/0)
   Kittredge requested a correction to the minutes, indicating that the reference to SEC licensing for NSPR should say FCC.

3. **Finance and Investment Committee Report**

   a. **Review of year-to-date FY21-22 Financial Statements** – Kelly reviewed the financial statements in detail for the committee. He reviewed the CSE General Fund Combined Budget to Actual through January 31, 2022, reviewing revenue and expenses. He noted that administrative fees most closely relate to FY20-21 actual rather than budget. He noted that there is an increase in administrative fees due to the resumption of on-campus activities because of decreasing pandemic restrictions. Investment income had positive earnings and dividends last year and showed unrealized gains of $1.7M. However, he showed unrealized losses on investment income through January 2022 at $1.3M. These numbers illustrate the fair market value of our investments on paper only. This is not actual cash income or loss. Total revenue is $2.6M, or 48% of budget YTD.

      Kelly reviewed expenses, noting that most expenses are where he would expect them to be at this point in the year. Contract software expenses are well below budget, but Kelly noted that he anticipates more software expenses before year-end. Insurance expenses are increasing every year as anticipated. Research, sponsored programs, and centers expenses are space allocation charges and where we would expect them to be at this point in the year. Total expenses through January 31, 2022, are $3M. Operating Activities net is at negative $465k, largely due to the unrealized losses.

Kittredge asked if CSE is experiencing staffing issues as so many companies are. Sidney noted that some salary modifications have been and will continue to be made for retention purposes. Kelly noted that the pandemic has created some staffing challenges.

Kelly reviewed the CSE Statement of Net Position as of January 31, 2022. Accounts receivables have increased from October 2021. Total year-to-date assets are at $43.2M, which is $4.0M less than the 2020-21 fiscal year-end balance. Total liabilities have decreased by $2.9M over FYE 20-21. The total net position at January 31, 2022, is $31.8M.

Kelly reviewed the CSE Statement of Revenue, Expenses, and Changes in Net Position through January 31, 2022, noting that total revenues and other support are at $26.6M YTD. Total expenses were $27.7M and the net position, ending balance is $31.8M.

Kittredge asked about a possible restructuring of the large Center for Healthy Communities (CHC) grants, as funding for those grants has been delayed in the past. Sidney and Flowerdew shared that they participate in monthly strategic planning meetings with CHC and have requested advance funding of their grants when possible. Those requests haven't been successful to date, but the efforts continue. Sidney also noted that a large recent CHC grant was significantly delayed, to the point of threatening program termination. But with concerted efforts both locally and at the Chancellor's Office, that contract was resolved.

Kittredge requested an update from Kelly on the status of the RFP for external auditors. Due to the Chancellor's Office audit, Kelly noted it was recommended to extend Aldrich, the current auditing firm. He indicated that he might be able to submit an RFP by June 2022. He provided some details to the committee about the status of the audit.

4. Proposal for Exception to F&A Distribution Policy for FY20-21

Sidney reviewed her March 2, 2022, memo, as shown below.

This proposal is submitted in recognition of the major increase in funds available for F&A distribution for FY20-21 due to unusually high market returns. As background, last year's market investment returns increased $804,038 or 322% over budget. Applying the current F&A distribution policy, this would result in an FY20-21 distribution to academic units of $728,422, a $254,207 increase from the FY19-20 F&A distribution of $474,215.

Given the significant market downturn we are already experiencing in our FY21-22 investments, with $1,272,028 in unrealized losses, management is concerned about distributing a market windfall. We recognize that the current year's returns create a challenge to achieving a balanced operating budget. For this reason, management believes it is prudent to hold the FY21-22 F&A distribution amount at the FY19-20 level of $474,215, and then roll forward the increase to the current year's operating budget to support a balanced budget for FY21-22.

There was significant discussion about this proposal amongst the committee members, Sidney and Larson. Sidney shared the F&A Distribution Policy with the committee, showing that it is the net position that is used for the calculation of F&A distribution.

Barker inquired about CSE's cash reserves. Kelly clarified that cash reserves are necessary for several reasons. With the influx of work and growth to CSE, staffing has not kept pace with workload, and financial investments to increase staffing will be necessary. Also, CSE has many cost reimbursement grants, which require CSE's advance payment of expenses before it can be reimbursed for those expenses.

Kittredge noted that, in his five years on this committee, he has never observed a year with a net loss to the general fund. He agreed that not distributing the entire FY20-21 F&A calculated amount would be prudent given the financial downtown in FY21-22 and that matching the previous fiscal year's distribution would also be prudent. This would allow for the remaining $254,207 balance to be rolled forward into FY21-22. He agreed that waiting until June 2022 to make the final committee decision on the distribution of the remaining $254,207 would be reasonable, once there is a better sense of the reality of the year-end general fund net income. He asked the committee if they were comfortable with this recommendation.

Kelly mentioned that the current policy doesn't take into consideration the unprecedented paper, not actual, gains, or the equally unprecedented paper losses. He suggested a future discussion about the policy to allow for these possibilities in the future.

Chaudhry indicated that she would be amenable to a one-time policy exception. In addition, she raised concerns about the volatility in the market and CSE's investment portfolio structure. She suggested that tying F&A income and market results together could potentially increase CSE's future risk. Kelly shared that the portfolio is managed by the external firm that the university foundation employs. He also noted that the pandemic has caused unprecedented financial swings.

Sherman suggested possible policy changes that would view distributions over a two-year timeframe rather than a year at a time, but understands and supports Sidney's current proposal.

Motion to recommend the proposed exception to the F&A Distribution Policy for FY20-21 to the Board of Directors as follows:

The F&A distribution for FY20-21 will be capped at $474,215, which matches the F&A distribution from FY19-20. The committee will convene next quarter to discuss the appropriate action for the remaining $254,207 balance. This is a one-time exception to the F&A Distribution Policy based on unrealized investment gains and losses, until and unless the committee determines that the F&A Distribution Policy should be amended. (Barker/Sherman)
Motion carried (4/0/0)

5. Facilities Use Fees

Sidney provided an update on the facilities use fees, sharing that she met with Sherman in December and provided an exchange of value proposition and how it might be factored into the formula used to determine the facilities use fees to offset some of the costs to CSE. She is awaiting a response to that communication. Additionally, Sidney requested information showing how the current fees are being calculated and has not yet received a response to that inquiry. In the meantime, Sidney is reviewing cost information and MOUs currently in place to determine if there are duplications in fees being charged to CSE between the MOUs and the facilities use fees.

Kittredge expressed concern about the duration of this process and emphasized the importance and time sensitivity of getting the matter resolved. Larson suggested that the involved parties get into the same room to look at the same documents and come to an agreement. Kittredge will mention this to the Board of Directors and request to have this negotiation finalized before the end of fiscal year 2021-22.

6. New F&A Methodology

Sidney briefly showed a presentation that she has been sharing with key stakeholders about Facilities and Administrative (F&A) costs. She outlined the differences between the old and new proposed F&A calculation methodologies. She explained that the old methodology said that every project gets its prorated share of all project net F&A surpluses, based on their level of spending, regardless of the amount of F&A that their project generated. The new methodology simplifies the previous formula and incorporates a calculation used to determine if projects cover CSE's cost to administer them. The old formula would offer F&A distributions to projects that hadn't generated any F&A income. The new formula would look at the F&A generated by each project, subtract the cost of administering that project, and determine any F&A surplus or loss. Because CSU, Chico, and CSE want to include all disciplines in their grant and contract activity, they don't currently turn away grants or contracts that have low or no F&A reimbursement. CSE's reporting can show the project personnel, deans, and colleges the level of activity in their projects, providing improved transparency. Sidney has presented this concept to the Sponsored Program Advisory Committee where it was thoroughly discussed and well-received. Sidney will work very collaboratively with the deans and center directors so that they understand the new methodology and processes. In summary, the new methodology requires that we first consider the cost of administering a project before we consider any distributions to those projects.

Sidney asked for the committee's approval to proceed with introducing the new concept by meeting with individual campus stakeholders to show them their individual F&A distribution, and the new methodology, and discuss implementation. Of note, the final decision to roll out the new methodology will be up to Provost Larson.

Motion for approval for Sidney to proceed with campus consultations with deans, center directors, and project directors in a collaborative fashion to share the proposed F&A distribution methodology and process.
Motion (Chaudhry/Barker)
Motion carried (3/0/0) – Note: Sherman left the meeting before this motion

7. **Next meeting date and time to be announced and communicated electronically**
8. **Adjourn at 4:12 pm**

Respectfully submitted,

Mary Sidney ______________

Mary Sidney, Secretary