Chico State Enterprises

Finance and Investment Committee

Meeting Minutes
Wednesday, May 18, 2022, 2:00 pm
25 Main Street Conference Room

https://csuchico.zoom.us/j/86309165719?pwd=ZjZoaVhtRmxNdEk1aXRiS29PZzFZZz09&from=addon
Meeting ID: 863 0916 5719
Passcode: 889832
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Committee Members Present: Ron Barker, Tod Kimmelshue, Bob Kittredge, Ann Sherman, Mary Sidney

Members Absent: Anita Chaudhry

Other Board Members Present: Debra Larson

Also Present: Amanda Bullock, Michele Flowerdew, Vance Kelly, Dana Pitman

1. **Call to order at 2:04 pm**

2. **Approval of Minutes from March 8, 2022**
   (Kittredge/Sherman)
   Motion carried unanimously (4/0/0)
   Note: A correction was made to the review of the YTD FY21-22 financial statements, correcting the total assets YTD from $44K to $44M.

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, starting with the General Fund Combined Budget to Actual through March 31, 2022, as compared to the same period, 2021. He started with revenue, noting an indirect cost recovery increase of $182K year-over-year (YOY). Administrative fees (campus program fees) have increased by $65K. Actual investment income increased by $308K. However, the unrealized losses in investment income are significant at $1.5M, with a negative variant of nearly $3M. He estimates that these wide swings will self-correct in the coming year. Total revenue YTD is $3.2M, with a negative variance of $2.5M over the prior year. Kelly reviewed expenses, noting that wages and benefits have increased by $225K. Office operation expenses are down as compared to the same period, the prior year. Other contract services increased this year due to legal fees and an environmental study. Insurance expenses continue to increase. Total expenses for 2022 increased by $278K over 2021. Kelly noted that removing unrealized investment gains and losses from the equation takes our operating activities from a negative $709K to a positive $806K, so this line item makes a large impact. While it does not reflect actual cash gains or losses, it is included in the general fund budget because it impacts our general fund net position. Sherman sits on the CSU Risk Management Authority (CSURMA) Board and noted that many insurers have left California due to California's many natural disasters as well as a litigious society and that the remaining or new insurers have dramatically higher rates. Kittredge recapped the loss to the General Fund at the end of the year as it relates to year-end F&A distributions. With a negative net, there would be zero F&A distributions in the current fiscal year. Vance confirmed that that is the case. Kittredge also reminded the Committee that, rather than distribute the F&A allocation that was calculated in FY2020-21 based on the unrealized investment gains, the Committee voted to set aside that amount and divide it between two fiscal years so that there would still be an F&A distribution for 2021-22. Larson opined that the decision to set aside the 2020-21 F&A allocation to split between two years will be positive for the campus community. If there is no positive net income in the coming year, 2022-23, there will be no F&A to distribute. Sidney has worked with other auxiliaries in the past who did not include unrealized investment gains and losses in their budget. Kelly explained that CSE's budget is done the same way as the University Foundation's (UF) budget. Sidney asked whether the Committee would like to keep CSE's budget consistent with the way that the UF budget is done or to do something different. Kittredge noticed that, from an audit perspective, he believes it is prudent to keep the two entities consistent.

Kelly reviewed the CSE Statement of Net Position (balance sheet) as of March 31, 2022, with YOY comparisons. He noted that cash and investments have increased by $43K as compared to the same period last year. Short-term investments have their own line item this year, which differs from the prior year when they were lumped in with cash and investments. The combination of the two investment categories shows an increase of $231K YOY. Accounts receivable is positive by $62K as compared to the prior year. Prepaid expenses have increased by $200K. Total assets YTD are at $44M, which is a decrease of $829K YOY. He reviewed liabilities, noting that accounts payable is down by nearly $600K YOY, while accrued expenses and other liabilities have increased by $361K. Unearned revenue has increased by $341K over last year and Kelly explained that this means that we have received more upfront money than in the previous year. Other post-employment benefits obligations have increased by $130K. Total liabilities increased by $242K, resulting in a total net position of $32M. This is a negative variance of $571K as compared to the same period in 2021, mostly related to the unrealized investment swings.

Kelly reviewed the Statement of Revenue, Expenses, and Changes in Net Position through March 31, 2022, with YOY comparisons beginning with revenues and other support. Grant and contract revenue has increased by $4.6M, due to the increase in activity in the past year. The sales under the auxiliary activities fund decreased slightly YOY, and event and membership activities have increased by $576K YOY. Investment activity shows a decrease of $2.7M in mostly paper losses. Total revenues and other support are $35.3M YTD, which illustrates a $2.4M increase YOY. Kittredge asked how the increase in volume is affecting CSE's departments and staff. Kelly responded that the staff is working hard to process all the additional work that comes with increased volume, though there has been a bit of a bottleneck recently due to staffing changes and training of new staff members. Larson asked if CSE is doing a good job communicating processing delays to our stakeholders. Kelly replied that we were proactive in releasing a notification to our stakeholders in mid-April.

Kimmelshue asked if the processing slowdown is directly related to the increase in grant activity. Kelly responded affirmatively, explaining that, with the relaxation of pandemic restrictions, grant activity has increased significantly which increases expenditures, thereby increasing transactions. Sidney noted that the hospitality and travel approvals requests have also increased significantly. Larson asked for clarification about whether grant activity has increased. Sidney responded that grant activity increased by 17% from 2021 to 2022, which was during the pandemic lockdown. YTD, she noted, direct program spending has increased another 14%. Sidney indicated that the individual programs and centers are growing and expanding. She believes that there is additional growth potential at the individual PI level.

Kelly reviewed expenses for the Committee. There were increases in almost every category, resulting in an increase of $5M in expenses. Sponsored programs alone had an increase of $4M. Most of the increase in expenses is attributed to sponsored programs and campus program funds. Kittredge asked about the Participant costs line item. Kelly indicated that this item includes student support costs such as tuition, stipends, books, travel, and other student-support expenses. The change in net position, ending, was negative $571K YOY.

4. Facilities Use Fees

Sidney updated the committee on the progress with facilities use fees. She, Larson, Sherman, and Stacie Corona met in March to discuss where the current numbers originated and to drill down further. They are working on a new approach and methodology. She believes they are closer to a final decision about the final methodology. She reminded the Committee that a placeholder was put into the 2022-2023 budget, but that the final number may differ from that. Sidney was working toward the new F&A methodology and realized that this information could be used to develop a new methodology for the facilities use fee structure. Kimmelshue asked if the fees would be adjusted retroactively. Sidney indicated that a new MOU will be drafted, and the new methodology would be put in place prospectively, not retroactively. In response to questions about the finalization of this process, Sidney said that she hoped that it would be completed by the close of the 06/30/22 books.

5. Proposed Budget Request

Sidney presented the proposed budget to the Committee. With the accelerated growth that CSE has experienced in the past year, there have been additional staffing needs, some of which have already been hired. She noted that hiring, as well as retention, continues to be a challenge. As mentioned earlier, program expenditures were up 17% in 2021 and an additional 14% YTD in 2022. This has created a need for additional staff to handle that increased volume. Additionally, due to the challenges in hiring and retention, salary market evaluations and adjustments are necessary and have been budgeted at 3.9%. These three combined staffing components total a $677K increase. She estimated a 6% increase for the MOUs with the university. Insurance costs are estimated to increase by 23.3% as shown in this proposal. These expenses are estimated at $744,768, which amounts to about 14.3%.

Sidney then reviewed the proposed revenue portion of the budget. Program administration fees were increased by 14.6%. These programs were hard hit by the pandemic because they required external venues or workshops. They are coming back to life now. Investment income is increased by $10K, or 2.9% over last year's budget. Revenues are up by 11% and, with expenses estimated at 14.3%, we just balanced to zero. Sidney noted that, while we always start the year conservatively, we should have a better sense of actuals after the first quarter. As the facilities use fees are still in discussions, that line item was highlighted. In summary, the total FY22-23 expense budget request is $5,934,962.

Sidney anticipates additional growth with the relief of COVID restrictions. There are many small programs doing great work and successfully obtaining grant funding, not just one big project or center. Larson noted that the PIs already affiliated with various funding agencies are doing well but it can be a struggle for new PIs without a previous funding source to get into those relationships.

Larson spoke briefly about the behind-the-scenes analysis that is taking place to determine which projects currently run by CSE that could more appropriately be run by the university because of their significant link to faculty and instructional work and not research. She used the Big Chico Creek Ecological Reserve (BCCER) as a good example. BCCER supports a very large number of students, is located off-campus, and is currently administered by CSE. However, the work being done by and through BCCER is of a highly academic nature and may be more appropriately run by the state. Larson also noted that Sidney has been very active in IRB (human and animal subject work). Over 95% of that work is on the academic and instructional side, not on the sponsored programs side. Progress has been made toward transitioning that project to the university and away from CSE, but there is work and analysis to be done for projects like BCCER. Due to the university's current low enrollment numbers, there are no funds available for the university to support these important programs.

Kittredge asked about contracts and grants for which the F&A reimbursement is very low or zero. Specifically, he asked about the process for monitoring the incoming new or renewing grants and contracts to understand the fiscal impacts of managing those without adequate reimbursement for F&A. Flowerdew explained that she and her department work diligently to include language in each contract that allows for prefunding opportunities or even partial prefunding rather than waiting until the end to bill for services. However, many of the fixed-price contracts are strictly cost-reimbursed and are inflexible. Her department also bills monthly rather than quarterly if the grant or contract will allow it. Kittredge referenced the recent Centers for Healthy Communities (CHC) contract that was significantly delayed in processing and how catastrophic the cash flow issue can be. Larson shared that executives and cabinet members went to elected officials to get the contract prioritized and were successful in getting the contract processed.

Motion to approve the budget as presented to the Board of Directors (Kittredge/Sherman)
Motion carried unanimously (4/0/0)

6. Update on the New F&A Methodology

Sidney updated the Committee about the on-campus meetings with college deans to present details about the new F&A methodology, noting that it has been well-received as a whole. The College of Education, as she anticipated, will be negatively impacted by the new methodology. Sidney and the Larson are working toward a three-year transition to minimize the impact to that college. Another option could be that CSE staff would be written into a grant and that the college would be reimbursed for those expenses when they are billed to the grant. Sidney recapped the anticipated F&A distribution timing for the past two fiscal year periods, anticipating that the distribution will occur in summer to fall this year. She also confirmed that, based on the current break-even budget, there will be no estimated F&A distribution for FY2022-23. Sidney responded noting that OneSolution has been very helpful in helping to determine the new F&A methodology. In response to a question from Kittredge about the timing of the finalization of the new F&A methodology, Larson said that a new MOU must be written and put into place.

7. Next meeting date and time to be announced and communicated electronically

Kittredge requested that we set the Board and Committee meetings for a year if possible.

8. Adjourn at 3:25 pm

Respectfully submitted,

Mary Sidney
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Mary Sidney, Secretary