



Board of Directors Meeting Minutes

Thursday, May 26, 2022, 10:00 am – 12:30 pm

Colusa Hall 100 B

<https://csuchico.zoom.us/j/83797678406?pwd=T2tLWDhMRERkdGkxekJqZHkreUxOZz09&from=addon>

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Meeting ID: 837 9767 8406

Passcode: 825969

MEMBERS PRESENT: John Carlon, Kristen Chatham, Dave Hassenzahl, Gayle Hutchinson, Tod Kimmelshue, Bob Kittredge, Debra Larson, Shane Mayor, Ben Seipel, Mary Sidney, Angela Trethewey

MEMBERS ABSENT: Ahmad Boura, Anita Chaudhry, Tom Lando, Ann Sherman

ALSO PRESENT: Amanda Bullock, Julie Jessen, Vance Kelly, Dana Pitman, Monique Sendze, Liz Squire

I. **Call to order** – Larson called the meeting to order at 10:06 am.

II. **Approval of minutes from March 10, 2022**

Motion to approve the minutes from the Board of Directors meeting on March 10, 2022 (Kittredge/Hassenzahl)

Motion carried unanimously (9/0/0) There were technical audio issues in the meeting room, so Seipel was unable to participate in this vote.

III. **Public Comments and Announcements** – None

IV. **Reports**

A. **University President's Report** – Hutchinson expressed her appreciation for the hard work of hundreds of staff volunteers in successfully managing seven in-person commencement ceremonies last week. She shared that the annual budget process is underway, and management continues to advocate with the legislators toward this process. The cabinet continues to lobby for additional funds for the four CSU farms. Those efforts have been successful, increasing the budget for Chico State Farm to \$18.7 million. Continuing with the budget conversation, she noted that the cabinet is working hard to obtain \$40 million in funding for the Human Identification Lab.

Hutchinson introduced and welcomed Monique Sendze, the new founding Vice President of Information Technology.

Hutchinson spoke about the university's current enrollment decline, noting that the Provost is working diligently to gain understanding from departments about where the university should be growing programs and where it should focus on redesigning or rethinking programs to increase enrollment.

- B. Board President's Report** – Larson shared that the university successfully negotiated a bargaining agreement with salary increases and stipends for most of the faculty. She attended *Candles in the Canyon* for Big Chico Creek Ecological Reserve (BCCER), which celebrated the many accomplishments of BCCER. She also noted that Eli Goodsell, the director of BCCER, manages a significant load of nineteen graduate students. BCCER is a significant contributor to furthering the educational mission of the university, with over 2,000 student visitors to the reserve every year.

Larson highlighted Chico State Enterprises (CSE's) support of International Education and Global Engagement (IEGE), which supports several faculty and educator training programs, led by Dr. Charles Zartman. The university's Study of the U.S. Institutes (SUSI) group, composed of educators from all over the world, recently finished for the academic year. There will be another SUSI group this summer for 5-6 weeks and that the Iraqi Young Leaders Exchange Program will be on campus as well. She noted that CSE supports these types of programs and the business processes behind them.

Kittredge asked about the demolition of the old science building and what plans are in progress for the future. Hutchinson responded that debris removal is happening currently. Construction is planned for fall 2022 with an expected 18 months to completion. She suggested having a rendering brought to an upcoming meeting.

C. Finance and Investment Committee Report

1. Review of FY21-22 Year-to-Date Financials through 3/31/22 – Kittredge noted that a meeting of the Finance and Investment Committee was held on 5/18/22 and reviewed the items listed in today's agenda. Kelly noted that the financial reports presented in the packet show financials through March 31, 2022, as compared to the prior year-end balances. Today, he will present year-over-year comparisons of 3/31/21 vs. 3/31/22. He reviewed the CSE General Fund Combined Budget to Actual report, noting that indirect cost recovery (F&A) increased by \$182K indicating a 7% increase over the same period of the prior year. Administrative fees increased by \$64.6K, which represents an increase in expenditures from campus programs. He explained that investment income shows a large increase, but that those are unrealized gains, not actual income, and noted that the realized gains amount to a much smaller number. Total revenue was \$3.2M, which showed a \$2.5M year-over-year (YOY) loss. He reviewed expenses, noting that wages and benefits have increased. Office operation expenses decreased, but he noted that many antiquated laptops were replaced during remote work due to the pandemic. Financial audit and tax services fees decreased, however, Kelly noted that CSE will have another audit this year, so those fees will likely increase by year-end. Insurance costs have increased over the previous year. Total expenses have increased by \$278K YOY.

In response to a question from Larson, Kelly confirmed that, in terms of investment income, our investments did grow. The dividends received at year-end were significant. He suggested that the wild swings he saw in investments over the past two years will likely level out over time. He is meeting with the CSE and University Foundation's investment advisor, Arnerich Messina, soon about market projections. Kittredge recapped a discussion from the recent Finance and Investment Committee (FIC) meeting. He explained that, if CSE ends the fiscal year with net negative revenue for FY2021-22, there will be no money for F&A distributions. In anticipation of that outcome, the FIC elected to match the previous FY2019-20 F&A distribution for FY2020-21 and to carry over the remaining \$254K to FY2021-22 to mitigate the probability of a zero F&A distribution for FY2021-22.

Kelly presented the Statement of Net Position as of March 31, 2022, reviewing the individual funds year-over-year. He reviewed the assets, noting that total assets are down by \$329K from the prior year, with \$44M in total assets. This total included slight increases in cash and investments, accounts receivable, inventories and prepaid expenses, and decreases in notes receivable and capital assets. He reviewed liabilities, noting that accounts payable have decreased due to payments received. Accrued expenses and unearned revenue have both increased slightly. Total liabilities were \$11.8M, with a year-over-year increase of \$242K. The total net position was reported at \$32.2M, which was \$571K less than the previous year, noting that the total net position number directly relates to the change in cash investments and the market downturn.

Kelly reviewed the CSE Statement of Revenue, Expenses and Changes in Net Position through March 31, 2022, showing the changes during the same period last year. Grant and contract revenue has increased by \$4.6M, showing a 17% increase. This revenue is earned when grants and contracts spend money, so this shows that CSE is processing a lot more expenses as compared to the prior year. Event and membership are up by \$576K due to increased activities on campus. Total revenues and other support were reported at \$35.3M, showing a \$2.4M increase over the prior year. Carlon asked if there is any federal COVID relief money available. Kelly will check on this and bring the information back to the Board at the next meeting. Kelly reviewed the expenses and transfers, noting that the relaxation of COVID restrictions from the prior year has resulted in increased expenses in the form of travel and in-person activities and that the Sponsored Programs and Campus Programs funds have increased significantly over the same period last year. The change in net position decreased by \$2.6M, primarily related to the investment income swings. The net position ending is \$32.2M, showing a loss of \$572K over the prior year.

- 2. Facilities Use Fees** – Sidney provided an update to the Board on facilities use fees. She referenced the final page of the packet which shows the FY22-23 proposed budget, noting that the highlighted line illustrates the unresolved issue of facilities use fees. An on-campus meeting was held with campus Finance staff and the group gained clarity on the previous methodology. Sidney has worked closely with Stacie Corona in the Finance department and said that they

are very close to finalizing a new methodology for calculating facilities use fees. This new model will look at the space, project directors, what rooms they are in, the square footage of those rooms, and the amount of time roughly allocated for grant and contract work. This allows the group to determine the cost to the university for those uses. Therefore, the sum of those calculations will be space-based. The new methodology is in the early stage but is much closer to completion. She predicts that it could be ready by the next Board meeting. Regarding the campus facility utilization fees budget line item, the working group has agreed to hold those fees at \$206K until this matter is resolved.

- 3. Proposed FY22-23 Operating Budget – Action Item** – Sidney presented the budget memo included in the packet, reviewed changes and proposals, and explained the methodology behind her budget recommendations. She explained that it has been critical to hire additional staff to keep up with growth, noting a general fund budget request for 4.5 FTEs and a student. As discussed at previous Board meetings, it has become imperative to remain competitive and make compensation market adjustments to retain staff, noting the loss of a couple of staffers prior to these adjustments. She referred to the line items listed in the budget memo which itemize wages and benefits for new hires, market adjustments, and annual merit increases for current staff. These wage-related expenses are the largest portion of the increases in the proposed budget. Sidney explained that the non-wage expense category reflects the contracts in place with the university to provide services for the 25 and 35 Main facilities. Standard inflation was factored in. She noted that insurance costs have shown double-digit increases, despite being part of a pooled system with other universities. Auxiliaries have tried other options but have come back to the pool because it has proven to be the most cost-effective.

Sidney reviewed the budget proposal, beginning with revenue. She highlighted the 14% F&A increase budget to budget, noting that it is a realistic estimate at only 5.5% over the actual for FY2021-22. Program administration fees are projected at 14.6% over last year's budget. This encompasses self-support programs like the Gateway Science Museum and the North State Symphony, which raise money by selling tickets for their events. During the pandemic, these programs virtually shut down. With COVID restrictions lifted, this increase seems reasonable. The remainder of the revenue budget has moderate increases adjusted for standard inflation. Larson drew the Board's attention to the decrease in University Foundation business services fees since FY19-20, noting that there was a renegotiation of those fees. Hassenzahl asked about CSE's confidence that grants and contracts will increase in the coming year. Sidney explained that the largest growth stems from the centers, primarily the Center for Healthy Communities, Passages, and GIS, who already have double-digit growth and have indicated that they have the bandwidth for additional growth. She then moved on to the expense portion of the budget, noting again that wages and benefits are higher due to the increasing need for staff. The remainder of the expenses consists of inflationary increases. She also noted that, during her tenure with CSE, she has never seen a budget that nets to zero. Center directors have been quite vocal about their expectations of service,

faster turnaround times, and increased volume of transactions as they grow their businesses. These expectations can only be met with increased staffing. Larson noted that the F&A distribution is not included in this budget as these distributions are calculated from the net which is projected to be zero this year. Sidney further explained that the net operating actuals in FY2020-21 were unusually high due to unprecedented investment returns, so the corresponding F&A calculation was based on a net gain of \$1.3M. The following year, FY2021-22, had equally unprecedented investment losses. The FIC voted not to distribute the entire calculated F&A distribution amount from FY2020-21 with the knowledge of the market reversal in FY2021-22. Instead, they voted to distribute an amount equal to the previous year's distribution and hold back the remaining balance to be distributed for FY2021-22 to mitigate the fact that there would be no calculated F&A distribution for that year. The calculated F&A in FY2020-21 came from unrealized investment returns, not F&A.

The FIC agreed that the F&A distribution formula should be revised to consider this for future years. If this budget is approved, Sidney will communicate to the campus community about the possibility of zero F&A allocations for this fiscal year. Trethewey opined that neither faculty nor PIs seem aware that F&A distributions are tied to CSE's net income; instead, believing that F&A distributions are tied directly to the indirect percentage affiliated with their grants and contracts. She suggested that this could be a communication issue. Sidney responded in agreement and further suggested that it is a serious policy issue that must be revisited. Carlon asked how the decision is made about how much F&A is distributed. He further commented that he doesn't believe that the people writing these grants and working on the projects fully understand the process and suggested that it be clearly communicated to be fully transparent going forward. Sidney agreed wholeheartedly, noting that this is a priority for this new methodology. She has been actively communicating with the deans, providing information that will hopefully replace the incorrect information and assumptions that are currently out there.

Larson suggested that it makes sense to review the outdated F&A policy to ensure that it is appropriate and relevant in today's world. Seipel agreed with Carlon and Trethewey's concerns and suggested that all policies related to grants and contracts should be posted on CSE's website so that PIs, deans, etc., can make informed decisions. Seipel suggested that policies should indicate actual F&A costs per expense, including contracts and sub-contracts. He also suggested including PIs, deans, and center directors as part of these conversations. Sidney explained that she is currently meeting with deans and will expand that to other constituents once this level is complete. She suggested that a workshop reception for each college could be beneficial, showing data and having conversations about the process currently underway. She intends to improve transparency going forward, including reporting, which hadn't been provided previously. Carlon asked if there is strategic planning involved in the F&A distribution and how CSE will manage this resource and where to invest it. Sidney responded that there are many dimensions to this. Larson stated that, in the F&A methodology that Sidney will propose, there is a specific set-aside for

colleges. Sidney is currently having conversations to educate colleges about the new proposed methodology, reiterating the flexibility the colleges have with these funds, including support for new initiatives and growth potential. Kittredge acknowledged the significant complexities in the F&A process and suggested reaching out to other CSU research organizations to see how they calculate theirs. Carlon suggested that CSE could take out a line of credit to help the business during times in between when projects are funded and when the expenses are reimbursed as one means of continuing to operate during the in-between times.

Motion to approve the operating budget as presented

(Kittredge/Hutchinson)

Motion carried unanimously (10/0/0)

- 4. Update on New F&A Methodology** – Sidney provided an update on the new F&A methodology, as discussed during today’s Q & A, as well as at previous Board meetings. She has been and will continue to meet with all the deans and center directors to get their input, thoughts, and reactions. Also, there may be times when there are F&A-generating people working on a project and others who aren’t generating F&A, and she is asking their thoughts on whether they want to share the information about which PIs are generating income and which ones aren’t. The answers thus far are inconsistent. Once these conversations are complete, she will meet with department chairs and any other college-specific attendees to share the methodology and answer any questions. She reported that the conversations are going well thus far, with the majority in support of moving forward.

Sidney noted that part of the discussion for those colleges adversely impacted by this new methodology might be the development of a phased-in implementation over two or three years. This is an important piece of this new methodology and is important to the final methodology. Once this is complete, she estimates having the F&A distribution that has been set aside to be distributed as early as July. Larson noted that Sidney will present the methodology to the Provost Academic Council (PAC) in June.

Carlon asked if other measures will be considered, for example, students impacted, or community members reached, and what the actual benefits are as a direct result of a center or program. Sidney responded that she has been reviewing the quantitative cost data. A qualitative assessment would be an important piece but doesn’t have a mechanism. Larson added that the qualitative aspect would be especially pertinent to Department of Education grants, which are funding mission-critical activities across the university. Carlon added that there is a parallel process taking place now where projects are required to report on any funds received from the university general fund as well as funds received from CSE, how they are expended, and what they are doing with those funds. Larson invited ideas for how to incorporate a qualitative aspect into this methodology. Seipel noted that he is currently working on a proposal for a large grant with a low indirect cost rate. He suggested that there

are mechanisms in some grants that could be used, such as in-kind contributions that exist in some grants already. This might be a way to measure those incidental or indirect costs that are not currently accounted for in these financial documents. Sidney thanked the Board members for their input.

- D. Audit Committee Report** – Audit Committee Chairman, Kittredge, noted that the June 8th Audit Committee meeting will allow for planning for the upcoming June 30 audit. CSE’s external auditor, Aldridge, will be doing the audit. In the past, the Board has authorized the Audit Committee to have final approval of the financial statements so that they can get to the Chancellor’s Office promptly without waiting for the next Board meeting. He asked for a motion today for the same process. Sidney will write up a standing policy for the practice.

Motion for a standing policy that allows the Audit Committee to approve the final financial statements prior to audit deadlines.

(Kittredge/Hutchinson)

Motion carried unanimously (10/0/0)

- E. CEO Report** – Sidney provided an update about the current Chancellor’s Office (CO) Auxiliary Audit, noting that the CO audits auxiliaries across the CSU to ensure that quality business practices are in place. This was an unscheduled audit that began in January 2022 and, in general, has gone very well. Partway through, the audit was expanded to include sponsored programs. There were only four findings, with cash handling at the University Farm being the most significant. Two less significant findings were that conflict of interest training needs to be better documented, and timesheets must be signed on time. The draft management response letter is being prepared for submission. Sidney hopes to have the final audit report in the next month or so. She will provide the draft audit report to the Audit Committee at the June 8 meeting.

Sidney shared her CEO presentation with the Board. She stated that, since October 2019, CSE leadership has been primarily focused on rebuilding and stabilizing operations. Initially, there was low morale and staff turnover, and two organizations had merged, so policies and procedures didn’t align. After these past 30 months, she indicated that CSE is turning a corner operationally. The organization is refining processes and systems. She plans to significantly enhance the organization’s communications with the campus community, which hadn’t happened early on due to the organization being in significant transition.

Sidney shared some of CSE’s successes, including stabilizing staffing, remediating a flawed financial software installation, and improving financial reporting. CSE has had two highly successful annual audits and was moved from a high-risk to a low-risk auditee. The human resources recruiting process was recently revamped to include social media and new technology tools, providing more qualified staff to the projects and center directors. Finalizing the new F&A distribution methodology is becoming another success, with positive feedback from stakeholders about transparent communication. She noted that there is a post-pandemic spike in hospitality, travel, and other transactions in previously dormant projects. In April, a CSE announcement went out to campus alerting them to a temporary slowdown in services. She noted that she

received constructive feedback from stakeholders and that CSE is responding accordingly. Having easily accessible policies and procedures posted on CSE's website would be highly appreciated by stakeholders. Positive feedback was also received about notable improvements in services received from the post-award (grants/contracts) staff. HR services, recruiting, and market analyses on salaries have been well-received. Monthly strategic meetings are held with stakeholders and relevant CSE staff members are in attendance to address issues and questions.

Sidney reviewed the remaining priorities as the organization turns the corner, noting that the next level upgrade of the financial system is in planning. Many policies and procedures must now be updated and will be posted on CSE's website, which is also under construction for a more user-friendly navigating experience. She noted that CSE will gradually increase efforts with intellectual property management to include the revision and update of Executive Memorandum, EM97-007. She also noted that, while there has been double-digit growth within the centers, there are still growth opportunities with individual PIs that CSE plans to investigate.

Sidney noted that CSE's new priorities will include expansion of outreach and communications, grant and development opportunities, telling more of the CSU, Chico story, and possibly hosting an annual recognition event for program and center directors. She described launching an annual print publication that would highlight externally funded work. Trethewey shared that there are existing grants that contain a storytelling piece with videos illustrating the work that the project is doing that could contribute to this effort.

Sidney displayed a possible timeline for the implementation of these forward-looking priorities. Seipel mentioned that there used to be a sponsored programs award program and that the CSE Development unit would be aware of that. Sidney concluded by noting that CSE is an integral part of CSU, Chico's Strategic Plan for 2019-2024, which states that *Chico State will be known as a preeminent university solving the unprecedented challenges of the 21st century. Also, CSE is well-positioned to contribute to and advance the University's vision through externally funded programs where university faculty, students, and associates have additional real-world impact in the North State region and beyond.* Hassenzahl thanked Sidney, stating that her calm, optimistic, solution-driven leadership of CSE has been impressive and that her vision for the future of CSE has allowed for rebuilding and growth in the organization. He mentioned that a more campus-facing CEO presence would ultimately be beneficial to CSE. He suggested that deans and center directors possibly collaborate with CSE on the communications to the campus as some of the projects are also working on communication strategies. Lastly, he suggested a more responsive approach by CSE departments to incoming emails and calls, so that the stakeholders feel that CSE staff have seen their communications and are working on them. Hutchinson thanked Sidney for her efforts, bringing the organization to a stable position, poised for growth, doing it all during a global pandemic, and with a positive leadership style. Carlon echoed these sentiments as well, also providing a suggestion that CSE work with the University Foundation for possible supplemental funding for projects. He suggested providing tangible metrics so that donors or potential donors can easily understand and see specifically where their dollars might be utilized and what those donations are expected to achieve. In closing, Larson

expressed her sincere appreciation to Sidney for her efforts over the past two and a half years.

V. The Board meeting adjourned at 3:00 p.m.

Respectfully submitted,

Mary Sidney

Secretary