Chico State Enterprises

Finance and Investment Committee

Meeting Minutes
Wednesday, December 7, 2022, 9:00 am
25 Main Street Conference Room (Hybrid)

https://csuchico.zoom.us/j/81868518282?pwd=eTB4VUVlckRVZEx5azVRS1huQktiQT09&from=addon
Meeting ID: 818 6851 8282
Passcode: 159613
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Committee Members Present: Ron Barker, Anita Chaudhry, Bob Kittredge, Debra Larson, Ann Sherman, Mary Sidney

Members Absent: Tod Kimmelshue

Other Board Members Present: None

Also Present: Michele Flowerdew, Vance Kelly, Dana Pitman

1. **Call to order at 9:00 am –** Kittredge chaired the meeting in Kimmelshue's absence.

2. **Approval of Minutes from September 14 and November 4, 2022**
   (Kittredge/Larson)
   Motion carried unanimously (4/0/0)

3. **Review of Year-to-Date FY22-23 Financial Statements** - Kelly reviewed the General Fund Combined Budget to Actual through October 31, 2022. Revenue categories were where he would expect them to be at this time of year, though he noted that investment income is lower than he would expect, at only 11% of budget. The market is still fluctuating, so there is an unrealized loss of $134K year-to-date (YTD). Total revenue received is $1.9M YTD. Expenses were reviewed, showing that most categories are in line with expectations. Other contract services are artificially inflated because the previous year's audit is paid for in the first four months of this year. Total expenses were $2.1M, or 36% of budget. The Operating Activities net was -$249K. Insurance expenses were 122% realized but are expected to level out over the year. Sherman added that these expenses will likely continue to increase in the coming years as many insurers are leaving California due to the significant financial impacts of natural disasters and litigation.

   Kelly reviewed the Statement of Net Position as of October 31, 2022, identifying changes compared to the prior year. Accounts receivable have increased by $3.7M due to an increase in sponsored program activity. Total assets as of 10/31/22 were $42.2M, which is a change over the prior year by negative $3.8M, largely attributed to unrealized investment losses. He reviewed liabilities, noting that total liabilities have decreased by $1.3M as compared to last year. The total net position is $30.7M, showing a net negative change of $2.5M.

Kelly reviewed the Statement of Revenue, Expenses and Changes in Net Position through October 31, 2022. Revenues are down $158K over last year. Sales, as well as event and membership income, have increased. Investment activity was down by $407K over the prior year. Total revenues and other support total $14M, which is a negative change of $596K year-over-year (YOY). Barker asked why revenues are flat and accounts receivable have increased. Kelly explained that we are somewhat behind in billing due to staff turnover. Kelly reviewed expenses, noting that salaries and wages, as well as employee benefits, have increased due to the addition of staff. There is an uptick in operating expenses, hospitality, and participant costs due to increased activity, post-pandemic. There is a lot of grant-related travel from sponsored programs. Total expenses were $14.9M. The net position ended at $30.7M, which was a negative change of $2.5M.

With the increase in activities, CSE must assure that staffing is at appropriate levels to manage activity levels and to support the programs. Even with the unrealized loss, Kelly doesn't believe it will be as significant as last year. He noted that Facilities Management Services (FMS) will temporarily occupy 25 Main Street's upstairs space, reducing some of our expenses. Last year in December, we got a fair amount of income from dividends, and he hopes that that will repeat this year. Kittredge asked about creating a dashboard to convey what is happening with F&A and other key statistics, suggesting that this committee needs those key items to enhance understanding. He suggested that this could provide a better picture of what's happening, especially at the Board level. Sidney indicated that she and Kelly will work toward a summary or dashboard that hits the key cost and revenue factors. Kittredge asked for clarification about the transfers into the Board designated fund. Kelly explained that the majority is the surplus distribution from a fixed-price contract. There is a 50/50 split of any unspent monies between CSE and the project PI to use for professional development. Flowerdew added that we have used these funds to pay for faculty reimbursed time [e.g., research compliance committee chairs] and professional development. Once these fixed-price contracts are closed out, any remaining funds are transferred to the Board-designated funds. Kittredge questioned whether that is part of our net position or money that comes through our organization and has now been distributed to the PIs and whether that becomes a liability to us. Kelly noted that the classification of these funds has been a topic of discussion for the past few years. Kittredge suggested further conversations with Kelly on this topic. Larson asked about the transfers to CSU, Chico, inquiring about the F&A distribution that was withheld last year. F&A distribution would not show up in the financial statements, per Kelly, as they are in the Board-designated funds.

Kittredge asked that the analytical trending F&A information presented at the November Finance and Investment Committee (FIC) meeting be summarized for the Board with the most updated data. Sidney noted that the best trending information we can provide for the Board will be the YTD actual revenue recovery data and the F&A effective recovery rate (F&A variances from break-even) in summary form.

4. **Update on F&A Recovery Alternative Strategies** – Sidney provided an update about the F&A recovery strategies, noting that the priority targets are the 3 centers. The reclassification of sub-awardee to vendor and the ability to directly charge centers are two possibly viable alternative strategies. Sidney has met with the 3 center directors about the way subrecipients are classified,

versus a subcontractor, which has huge implications for F&A recovery. Sidney spoke with center director Jason Schwenkler (North State Planning and Development Collective) about new strategy ideas as he currently has a proposal for a large $9M construction project with very little F&A recovery. But he has submitted a new proposal and the possibility for some F&A recovery exists, though it could take up to a year to come to fruition. Center director Joe Cobery (Passages) agreed that some of his contracts may need to be classified differently. Director Stephanie Bianco (Center for Healthy Communities) is unsure how this new classification will work but is meeting with Sidney next week. The financial implications are significant. Sidney noted that we have three full-time staff that work almost exclusively for the centers. The volume and complexity of the three centers require a huge volume of resources. It's possible that the centers may need to be removed from the F&A distribution pool and instead, directly charged for those staff. There must be strong documentation in place when these policies are established. The ability to direct-charge staff could happen more quickly. Sidney will continue to update the Committee as she makes progress.

5. **Update on Facilities Use Fees** – Sidney shared that CSE developed a proposal for a new facilities use fee structure and that proposal has undergone a couple of iterations. Sherman had a conversation with Provost Larson and opined that the newest iteration of the facilities use fee proposal is inadequate. She notes that a base value hasn't been established and believes that she needs to establish that base value and go from there. Sidney asked Sherman if she might share the analysis that would explain the rationale for the base value. Sherman noted that it must be easy and auditable. Larson indicated an interest in hearing Sherman's rationale, noting that CSE has presented a model that seems viable. Larson would be interested in seeing a proposal from Business & Finance that presents a rational, auditable approach, is easy to manage, and makes sense. Kittredge expressed frustration about the length of time this process has taken and the inability to get it resolved. He noted that we must deal with this issue, simplify it, and it must make sense to the involved parties.

   Sidney offered to share with the Committee the information she gathered when she reached out to other campuses to learn about their facilities use fee practices. Humboldt, Sacramento, and Sonoma State campuses use an exchange of value method, recognizing that the auxiliary takes on other expenses such as accepting zero or low indirect reimbursement for the benefit of the university, so there is no charge to the auxiliary for facilities use fees. Those campuses have said that calculating exclusively sponsored-program space costs is difficult and immeasurable. Sherman indicated (via chat) that she has "given CSE a pass the past few years. It has been very generous in [her] view". (Sherman noted that she was feeling really under the weather that day but was able to continue using chat). Sherman messaged "At this point, we need to get back to a rational approach that acknowledges CSE's role in relation to the campus. The proposals submitted to date have not been able to be supported in the long term, nor easy to manage." Larson invited Business & Finance to come up with a proposal for a fee with a basis in quantified activity that works for all parties. She believes that we find common ground by having conversations from both perspectives, and currently, a proposal hasn't been forthcoming from Business & Finance. There are currently differences of opinion and philosophy that have no common ground. Kittredge asked if the FIC could assist with this matter in any way. Larson suggested that having proposals from each side, meeting together, and countering, is the way to a resolution. She disagrees with the interpretation that Business & Finance does not need to present a proposal beyond a single dollar amount with no factual analysis behind it. Both Larson and Kittredge expressed significant frustration with the duration of this process and offered their assistance to resolve it. There were no further suggestions or comments on the matter at this time.

Next meeting date and time will be announced at a later date

6. **The meeting was adjourned at 10:35 a.m.**

Respectfully submitted,

Mary Sidney
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Mary Sidney, Secretary