MEMBERS PRESENT:

ALSO PRESENT: Karen Finley, E.K. Park, Fred Woodmansee, Carol Sager, Cindy Wolff, Stephanie Blanco-Simeral, Tawnie Peterson, Dave Daley, Jennifer Ryder-Fox, Dan Dwayne, Brian Terhorst

1. Call to Order – at 3:00 pm by Paul Zingg. President Zingg asked for introductions from all present. He explained that Jonathan Day and Rick Coletti would be finishing their terms as members of the Board of Directors with this meeting.

2. Public Comments – None

Move to approve the minutes of March 28, 2012. (Hunt/Colbie) Minutes approved as submitted.

4. Foundation & University President’s Report – President Zingg
President Zingg offered comments on the budget situation. It is an ever-evolving budget for 12/13. The Governor has decided to buy out a fee increase for the students of the CSU and UC. This means providing the institutions with revenues equivalent to what a fee increase would have been. What is proposed is not a full buy out. A buy out does not mean any new revenues. At best it will be flat and more likely less than that. It was done two governors before and it was a disaster. In effect it freezes fees which means when they are raised it ends up being double or triple because the fee has not kept pace. We are looking at the prospect of the defeat of the governor’s ballot measure which will mean a $250 million decrease. Either way we will see a decrease for next year. It will be potentially very bad. Good would be stabilized at the $750 million decrease, but it will be more. The polls do not currently indicate that there is sufficient support for the measure. This highlights the issues we are talking about: support for faculty which translates into support for students; the service of our local community of the north state and beyond; and, a glimpse of what we are going to need to do with our foundations and managing our resources going forward. We are in a new era.

President Zingg enumerated a number of accomplishments of the institution including graduation rates, number of applications, accomplishments of faculty, efforts in sustainability and national recognition as a veteran-friendly institution, and community service and civic engagement. He noted that the message needs to be constantly about what we are accomplishing and to challenge
others to envision what more could be accomplished if the resources were available. He noted that some of the reports they would here at the meeting today would reflect the service from faculty and staff that benefits our community and our students. He asked for comments or questions.

Enrollment is forecasted to be steady going forward. There is an interest in out-of-state as well as out-of-country students who pay full freight. They were able to fight off attempts by the Chancellor's Office for downsizing. Zingg also noted the importance of the students to the economy of Chico.

5. **Acknowledgement of IRS Form 990 Tax Return**

President Zingg acknowledged that IRS Form 990 was sent out for review by Board members on May 20, 2012 prior to submission.

6. **Presentation of Operating Budgets**

   **Agricultural Teaching and Research Center Budget**

   Dean Jennifer Fox and Farm Manager Dave Daley presented the ATRC budget. Dean Fox began with a review of the farm activities and collaborations that occur on “South Campus.”

   Dave Daley presented a power point presentation to the Board. He invited Board members out to the Farm if they have not been there. Dave stated this is the first year he’s been able to come to the board and say they’ve had a great year. Daley noted that there are differences in running an agriculture business from other business within the Foundation and thanked Foundation staff for their assistance and accommodation. They made $375,000 last year opposed to the $38,000 that had been projected. He explained the nature of agriculture is to be extremely conservative in projections because there is no way to know what is going to happen. Yield and price are unknowns at the time projections are made. It may look like a lot of money, but he reminded the board that their infrastructure costs are expensive. For example, a tractor costs $280,000. He commented that staff, students and faculty, are doing an excellent job. They work hard and have enhanced the entire enterprise. He discussed impacts on costs including equipment, diesel, commodities as well as new crop plans and plantings. He explained it is a mixture of State and Foundation resources. If it is clearly related to students, safety and campus issues they try to use State resources. For equipment, yield enhancements, crops they try to use Foundation resources, but it is a gray area. They have only one debt left with the Foundation which is the cat loader purchased last year. They will be talking with the Foundation about the purchase of some new equipment over time again. They are finally going to be fully connected to CalWater. There are roughly 600 students out on the farm in the class each week, but they also are the agricultural literacy center for the north state. It is challenging but it is also part of the students’ education to interact with the public. He discussed that Farm staff has been doing an outstanding job. It is a small staff and three new members really have contributed to a change in the dynamics. He reviewed different programs undertaken at the farm during the past year and partnerships with California Olive Company, and Sierra Nevada Brewery.

   Daley referred to the budget projection for the 12/13 year and noted he is back to projecting $37,000---because they don't know what will happen in the coming year. He stated he is expecting that they will do better that this, but he just wants to be cautious until they get there. Goals will be to include infrastructure improvements. There is no fallow ground. Orchards are outstanding.
There are four components to the farm: field and row crops, orchards, livestock & meats, and greenhouses, and that is how they budget. Looking forward is the purchase of a tractor and other equipment purchases. They will need to be looking realistically what is needed and can be afforded. They will be also looking at the judicious use of donor funds. They're still looking at the creation of a farm store.

Hoffman asked Daley to articulate how the farm store might partner with the proposed organic creamery. Daley stated they have been looked at together and separately and the challenge with the creamery is that it's a huge infrastructure project. There aren't enough dollars to go out and do what they would like. They have debated about whether there is a way to develop the farm store on a small scale as they are waiting to build the creamery. The problem is if it isn’t done carefully now how you put the two together later. They are very open to ideas on how to get started with it incrementally and have done some on-line sales. They have had suggestions that the store should be in town and not on the farm. He added he would be happy to start with a roadside stand as Fresno did.

There were no additional questions.

**KCHO**

Dan DeWayne introduced the KCHO presentation noting that KCHO is part of University Public Events which is under University Advancement. He commented that KCHO is in the business of supporting the strategic priorities of the campus, particularly as they pertain to outreach to the northstate, diversity and multi-culturism. That permeates everything they do. KCHO operates 24 hrs/day, 7 days/week, 365 days/year. It is different from almost every other activity that operates on campus. It is the number one radio station in Northern California. It reaches people and makes a connection to the University and reinforces its value. He complimented Brian Terhorst’s efforts as General Manager of the station.

Terhorst noted that the budget numbers were provided in the Board packet and he would be providing a view of what those numbers represent in his presentation. He stated that KCHO has enjoyed an enviable position in the radio market this past year: #1 in the Chico metro market during the morning and evening drive times. This is not typical for a public radio station. Arbitron puts out a report about the effectiveness of a station. KCHO ranks nationally, with regard to market size, at 204th and 20th in the country at saturation level of hitting people in the market. That means there are only 19 stations in the country that are more effective at reaching their listeners. It's a delight to get that report. Over 4200 individuals contribute to the station each year and some multiple times and member support is the single biggest source of revenue for the station. They are looking at a 3% increase over last year.

Underwriting is public radio’s alternative to advertising. It’s viewed as a charitable donation and you are acknowledging the gift on the air which functions like advertising. You can mention the support from the business and where it is located, but are limited in other aspects as to what can be said about the business and that is governed by the FCC. Businesses don’t see KCHO as their “go to” location for advertising, but come to KCHO out of customer loyalty. So when there are tough
economic times, underwriting suffers and it is felt by reduced underwriting support. They are just short of their goal this year.

They have made changes in fundraising this year. This is the first cycle when they are merged with University Advancement and they have formed a very strong partnership with the gift processing department. It has eliminated duplication. They have new trafficking software. They made some important engineering upgrades. All of the emergency alert equipment was required to be upgraded. They are the only station that reaches a 10-county area—essentially the whole north state. They also upgraded their NPR satellite receivers.

This year marks the 125th Anniversary of Chico State and they have changed their state ID so that every hour they are identified as a ‘broadcast service of California State University, Chico, celebrating 125 years of community service. They are piloting a weekly radio project that will highlight the 125 years of Chico State. The project is being done all by students from research, script writing, using field reporters to capture audio, and they are doing the voicing of the pieces. He played a recording of a piece that is still to be completed.

He discussed summer program changes—a three-month period when they test out new programs. They have been concentrating on Saturday which is a time that has a lot of potential for increasing listenership. They launched the TED radio program hour and also Mountain Stage, and moved American Roots to a Saturday afternoon slot. Conversations from the World Café is a new program and the Blues program as well as a classic rock program have found new time slots. They are getting good responses to the changes.

For the next year they are planning for modest revenue increases including a 5% increase in membership. They are hoping for an increase in underwriting. They are optimistic that things are improving and that income will increase. They will maintain basic station operations and some upgrades would include remote control capabilities with their transmitter, and installing upgrades for their computer systems in the studios. He has also included some wage adjustments for the Foundation station staff providing the money is actually there to do it.

Changes in lease and rental costs were discussed. Terhorst explained they were amounts they used to pay when there were different lessors for transmitted property. They are not currently being charged so he’s removed it from the budget. That is also true for a $10,000 lease that never materialized.

DeWayne noted that with the move of KCHO to University Advancement they will also be initiating a much more aggressive major gift effort. The membership can be classified as an annual fund, renewable source of income as a result of pledge drives. They will be looking at identifying major gift prospects, perhaps from those who have been long-time donors through membership and would be interested in an endowment. Terhorst stated that in the past few months they have secured a sizeable bequest which is the first time that has occurred during his time at the station.

President Zingg noted these are action items for budget approval.
Move to approve the proposed 2012-13 budgets for ATRC and KCHO as presented. (Colbie/Calandrella). Motion Carried. (9-0-0)

**General Fund Budget Presentation**

Finley introduced the general fund budgets by referencing materials that had been sent to board members in the budget packet discussing the challenges in the presentation of this budget. She acknowledged this is not the type of budget one wants to bring to a board, but is the necessary result of where things are in the Foundation right now. Referencing the Board training held in preparation of this meeting, she reiterated that although the Board spends most of its time making decisions with regard to unrestricted funds, much of what impacts the unrestricted funds occurs in the restricted fund areas particularly the sponsored project area and how we look at unrecovered indirect and the types of projects and programs we bring into the Research Foundation.

Referencing page 7 of the budget book, Sager addressed indirect noting that it continues to increase reflecting changes made in 2008 on how indirect is negotiated. We also have our new rate for 2012. She noted that they are very conservative when projecting indirect recovery. It’s very much a reactive kind of business and we are seeing the effects of the problems with the economy although we will end the year up with an increase over last year.

President Zingg asked where we rank in the system regarding sponsored projects. Sager responded that for grant/contract activity we are in the upper third, but in terms of average indirect recovery we are in the lower half. Our recovery is less given the volume of activity we have although it has increased from 8% to almost 11%. For perspective San Diego is probably at 15-18% average indirect recovery and generating $160 million in indirect recovery.

Administrative fee recovery is projected to be down due to a number of the campus program accounts moving to State trust account. This is a result of an audit finding regarding the operation of programs in the proper organizations, state versus auxiliary.

Finley pointed out that we’re still suffering from the loss of interest income which has had a huge impact on revenue stream noting that interest on $4 million at one time generated $207,000 of income and that is now reduced to just over $15,000. Finley informed the Board that the sale to the State of the first 4 College Park houses had finally closed. This would see an influx of cash of almost $700,000 which is needed for cash flow purposes, but would not be generating much in the way of interest income.

Finley explained that the purchase of new financial and HR/payroll software that was discussed at the previous meeting was not included in the budget projections. The individual who was the project lead for the RFP and review process resigned leaving us in a holding pattern. While a new individual is being recruited the opportunity is being taken to explore in greater depth what long-term needs are. We’ve met with the campus’ new CIO who will help us sort what we’re doing by providing another set of eyes looking at the process. We’ll also consider another look at PeopleSoft and what its capabilities are with regard to our business needs and the campus environment.
Finley reviewed the consolidated budget for Foundation Administration and Research and Sponsored Programs discussing income sources and expenditures. Finley pointed out that the single largest source of income for the Research Foundation is indirect recovery which is why it is so important to pay attention to that income source. Members can see the effect of the decline in Administrative Fee income which was referenced earlier. The effects of the return of dollars from the dissolution of the Auxiliary Organization Unemployment Insurance Trust (AOUIT) were discussed.

Individual Foundation Administration and RESP budgets were also reviewed. Woodmansee explained how costs are allocated to various cost centers. It was explained that an extensive time study was performed during the 11/12 year to validate how these costs were allocated. The results of that study are being implemented for the 12/13 year so there are some shifts. Salaries still reflect the decrease realized by the vacancy in the Executive Director position. Increases in benefits costs were discussed as being anticipated and built into the budget, but no specifics are available yet.

Referring to the negative net income for the Foundation Administration Office, Hunt stated he was not sure how a loss could be budgeted. Finley responded that is why the consolidated budget is important because it reflects the overall general fund income. The Foundation Administration office is not a revenue generating function and is also dependent on the indirect recovered.

Sager reviewed the RESP office budget. She noted that she has increased her projection for indirect income to $2,400,000. She stated she thinks they are feeling the effects of the economy so was not brave enough to project $2.7 million. Average recovery is up. Administrative fees will decline as a result of accounts that have moved to the state. Most of expenses are tied up in salaries and benefits. The slight increase from 2012 to 2013 is the result of reclassification of two employees who had assumed additional responsibilities and had been there long enough to do so and therefore moved to the next level of their positions. They were not new positions. They also reduced their staffing overall by 1/2 FTE. She reviewed the increases in benefit costs including the effects of employer 403(b) contributions based on longevity. They looked and pared down operating expenses everywhere possible. She noted the estimated experience for 2012 salaries is down due to two employees being out on extended non-paid leave. Overall they cut and controlled costs everywhere they could.

Reviewing the shared costs she noted that for accounting services and data processing costs, which are partnered with the Associated Students who does some of their business processes under a contract, RESP probably pays the biggest portion. Grants and contracts are about 95% of the business of the Research Foundation and much of the cost is transaction based. The same is true of data processing costs. The largest share of audit costs is also located in RESP due to the scope of the audits required because of federal dollars.

Finley distributed a replacement for page 18 "General Fund Net Assets (Unrestricted) which corrected some numbers pertaining to the 25/35 Main and Soccer Stadium Principal Payments. The net numbers are still the same at the bottom of the page. Referencing Hunt’s earlier question, Finley noted that they were putting forth a budget that reflects a decrease in net assets of $581,896. The page reflects the components that go into the budget picture. Woodmansee explained the first
four columns are based on the audited financial statements. The last two columns, 2011/12 and 2012/13 are based on estimates. Because of that net income is broken out by area.

Hoffman questioned the negative number in 11/12 for the College Park Houses. She stated she thought it was re-structured so there would be cash flow. Woodmansee explained that part of that was the result of the vacancies of four houses that just transferred over. Woodmansee clarified that two had been previously vacant and uninhabitable, but the other two had been rented in the previous year. Finley added there had been a number of vacancies, some bad debt, in addition to repairs/maintenance. There is no outstanding debt on the properties. Hoffman recalled that she believed it was 08/09 it was not structured so that the Research Foundation could enjoy all of the net income, but in 09/10 it was restructured so that the Research Foundation could enjoy net income from the property. She expressed surprise that was not occurring. It was noted that the figures include depreciation. Conversation ensued regarding the accounting principles behind booking the depreciation. It was agreed that if depreciation were removed from the equation, the College Park houses reflect a cash income of approximately $57,000.

Finley noted the new allocation of $122,355 for facilities reimbursement and that everything else reflects the standard allocations that have happened in the past. Nothing was removed. Finley distributed a document that addresses the issues, challenges and decisions that lie ahead for the Research Foundation. We still struggle with 25 & 35 Main St. buildings and the fact that we house projects that are already paying indirect so charging rent is not an option. We operate in an environment that is in great need so that when we look at indirect and asking other entities who are funding these programs or the colleges to contribute to the subsidization of these projects it is not an easy thing to do. She referred to a power point slide that showed the volume of sponsored programs that do not come with any indirect at all and the impact that has. The slide shows that even if 8% were recovered which is the same amount charged for administration of campus program accounts or KCHO it would increase recovered indirect by $521,000. If we were recouping 11.1% which is the administrative cost submitted as part of our F & A proposal for the Foundation’s share of administrative costs, that number goes to $957,000. The Foundation bears the burden of these unrecovered dollars. Either of those numbers would greatly change what is being presented in the budget and net allocation sheet. Finley stated they are awaiting the arrival of the new Provost and are hopeful that in the coming year we can have some very direct conversations on the campus about how we approach the increased recovery of indirect.

Sager discussed that most of the projects associated with 0-8% indirect are projects that fund instruction and are essential to the core mission of the university. She referred to them as infrastructure funding. They pay for faculty salaries and benefits and generate FTE. About half of it also has cost sharing requirements which can create audit risk if not managed. It’s not an easy answer to say just don’t accept zero or low indirect projects. As has been discussed it’s going to take a combination of solutions and will take a lot of discussion in Academic Affairs because faculty will be the most impacted by any decision that is made. The history of Research and Sponsored Programs has been to accept all projects because they may help with professional development, FTE generation, provide infrastructure for the campus, provide an opportunity for tenure or promotion, or help someone publish. Whatever the reason has been, it is has been accepted. Now what we are looking at is a conversation with the Provost and this Board with input from Academic Affairs that questions whether we can continue to operate this way.
Sager recalled in 05/06, 06/07 there was no incentive planned at all on the campus. There was not sufficient net income in the general fund and it was suspended. Management got together and said we’ve got to do business a different way and at that time changes were brought to the board. We had a new F&A rate which meant increased revenue, we changed administrative fees from 5%-8%, and we cut out special appeals for indirect rates. We also reinstated the incentive plan and put $400,000 as a budgeted item in the budget. But it is a discretionary decision. This commitment was also made prior to the time the obligation of 25/35 was assumed. That was the business model then, and now it has changed. There are more expectations placed on the Foundation. Sager stated she is not suggesting the $400,000 should go away, but we need to talk about how we generate more income and cut expenses to meet our obligations. Meetings are being held with Center directors and some of them are committed to increasing their average indirect rate. It’s going to be a mix of things. We will need to drill down in our portfolio and determine where we spend the greatest amount of money for the least return. At the same time we must look at our expenses and see how we can be more efficient.

Sager continued that a post award analyst represents a cost of about $70,000. To get significant savings you would have to eliminate 2-3 positions. There are 6 analysts managing all the portfolios. If you eliminate three, that is 50% of their business. There may be some efficiencies and different ways to do some things but it is not just about cutting costs. She added she hoped this discussion helped them understand the $581,000 deficit, not that they like it, but understand it will take a number of solutions.

Hunt asked for clarification regarding the negative $578,246 associated with 25/35 Main St. and it was explained that it is debt service on the bond and operating costs. There is approximately $3.7 million left on the bond at an interest rate of approximately 4.9%. Hoffman added that the University has explored refinancing it and that the University would like to pay off the soccer stadium debt. It’s a 30-year mortgage on improvements that are already mostly gone. The large negative number includes operating costs and it was pointed out that the buildings are not efficient. There is a little rent collected from CLIC, and another way to look at it is that rent is not being paid out for space in other locations. Hoffman stated that the Centers in the buildings generate over $1 million of indirect. She stated KCHO is not paying rent and that is an unusual model.

The total usable square footage was calculated and the rate needed to be collected for rent would be $1.90/sq. ft. which in Chico is class A++ office space. Hoffman noted there are challenges and dilemmas. Coletti clarified that the $1.90/sq. ft. is based on cost and stated that is probably double what you would be able to get for it. Finley stated that we’re in a situation where had we known what the economy would do, if we had known what pressures would come down on the CSU itself, there would have been different decision made. One of the individuals who had helped mastermind the purchases of 25 & 35 Main recalled that the push at the time was growth. The campus was supposed to grow to 18,000, the buildings were needed to meet the needs for surge space. It wasn’t necessarily a wrong plan for the times when the plans were made, but it is a different set of circumstances now and we’re dealing with the repercussions of those decisions.
Coletti suggested at $1.90/sq. ft. we would save money by moving everyone out and putting them in
different places and disposing of the buildings. However that is the problem—in this economy we
are tied to it. It is hard to find a solution.

Jonathan Day noted that during his entire time on the Board, and this is his last meeting, business
would be fine without 25/35 Main St. and a real return on investments. Without that, the numbers
are fine. Even with $7.9 million in assets which is used to cover grant activity, his inclination,
although it might be counter intuitive, would be to see the incentive dollars go up so that they could
stimulate more grant activity. If we want more people writing the grants that will contribute to
indirect then we have to give the people the time to do this. He added it’s been great to have the
$400,000 there in the face of massive budget cuts and its remained there, but it would be nice to
take a longer view of this and make it happen and make it worthwhile for people to write grants.
Since these are Board decisions this is actually something that can be done to improve
grantsmanship on this campus which is outstanding for a campus of this size. He stated he didn’t
believe nickel and diming small grants is going to solve any of the problems. When 25/35 Main
came to the Foundation it was a burden and we knew it was going to be a burden, but we were
helping the University out. The economy is still in the dumper and there’s no interest income. We
can’t solve that.

Cindy Wolff was recognized and stated that they’re in a position right now of being so short on
space that they’re reluctant to write any more proposals and business is booming more than they
can reasonably handle. Day responded that it may mean they would have to go off campus and
acknowledged that would reduce their indirect contribution, but they may not have any choice, but
it would be better for the programs they operate. She agreed that if they have to go off campus and
their costs go up, their indirect rate would have to be discussed. Day stated for that reason and
others there needs to remain flexibility in indirect.

Hunt asked if the Board had ever approved a budget like this where it’s showing a loss. Finley
responded that it had—not to this extent, but there is precedent. Sager noted that the indirect could
come in at $2.6 million instead of $2.4 which would ease some of it, but she can’t commit to that
right now for the coming year. Finley added that everyone will be working hard to try and see if the
indirect recovery can be higher. Hunt noted that he felt the estimate at $2.4 million was fairly
conservative and the $581,896 could be halved based on what has occurred in prior years. Coletti
stated he supported Sager’s conservative approach. It is good for them to look at it that way.
History would show that they will do better, but in this economy it is difficult to say. He stated his
concern over the negative number. It’s hard to look two or three years ahead, but he doesn’t see
how things will be any better. We’re eating away at the reserves pretty quickly.

Finley stated there need to be some fundamental changes during the coming year on how things are
approached. One idea that gets floated out is that if a project comes with 0% indirect or at some
low number, then the college or unit has to make up some portion of that in order to keep the
Foundation whole. Sager noted that if she had better software she would have much better planning
abilities and is hoping that with whatever software we end up going with it will have grants
management capabilities. She would be able to be much better with predictions.
Hunt asked how the $400,000 in incentive dollars are allocated. It is based on performance in each college for the first $300,000. The other $100,000 goes to capacity building. The opportunity to receive incentive dollars is based on indirect recovered by each PI as well as the overall college. There is a fixed formula based that is standardized.

President Zingg stated that one of the major focuses on the Provost search was to find an individual who knows this territory, who is extremely experienced and successful in industry relationships and in the kind of partnerships that translate into positively affecting the bottom lines. Clearly one of the most important bottom lines is the indirect recovery funds that in themselves create incentives; that provide individuals and departments, centers and colleges with a source of funding that is just not coming from anywhere else. Consistent with supporting our service mission, supporting the opportunity for students to work with faculty, supporting student learning, supporting faculty development, it is in our interests that we strengthen, not hide in the shadows, from these challenges. It requires us to ask some fundamental questions about how are we structured to be successful and how are we oriented to be successful. He asked what extent is success an institutional priority. His response was that it must be an institutional priority, because it is consistent with our mission and consistent to our need to look beyond student fees and beyond general fund support as a way to define resources. One of the important dimensions of this University is that our service region is immense and every need imaginable is in our service region despite the fact that it is only 2% of the population of California. That accounts for some of the reasons why our grant and contract activity is as strong as it is. There are service needs and we are delivering. People have confidence in our programs. Belle Wei knows that on her top half-dozen list to accomplish is to strengthen our record in this regard, to create the incentives, and to deal with both the structure and the spirit of this critical work. We have to produce more. That may not necessarily mean putting more money into the effort, but may mean being smarter with the kind of effort that we bring. No one wants to look at a negative budget. He thinks that by working with some of the economic development folks in the region and tying into a needs assessment, we have the ability to strengthen our opportunities for faculty and distinction. He stated we cannot be satisfied with anything that looks like retreat even under the most challenging of environments in which we’re operating. He continued he is appreciative of Jonathan Day’s remarks about expectations and about incentives and they are words we need to take to heart. Belle Wei will be prepared on Day One, too. She understands this and is well prepared to grasp this picture and to work with colleagues in order to imagine a stronger performance going forward. We have reason to be optimistic. We also have to make choices about areas of distinction. KCHO is an area of distinction. What happens at the farm is an area of distinction. The Concrete Management Program is an area of distinction. All throughout the university there are areas of distinction and promise that need to be supported as exemplars for folks who want to know what distinction looks like and why we should support areas like that.

Thoma stated the buildings are an albatross and a shame that the buildings have to be supported at the cost of programs. Zingg noted that the 2002 Master Plan provided the context under which the purchases were made. The sustained downturn in the economy, the divisiveness found in the politics of our state and national governments, the increase in a number of propositions going back to Proposition 13, largely explain how we got where we are. The decline in general fund support shows the need to be prudent with our resources. The decision was based on the growth scenario which is bankrupt at this point.
Zingg continued that the arrival of the new Provost will mean old questions are asked in a fresh way. The question of why are we doing things the way we are is critical and not criticism. We need to understand what happened to the promise of 25/35 Main St. and what it was predicated on. We need to understand why it was wrong and not assume we must stick with a losing proposition. But we have to have alternatives.

Coletti stated he has been sitting around the table for a few years and he’s never seen a budget like this before so it concerns him. He asked what happens if a budget is not approved and is that the option? Zingg commented that a blunt and candid conversation has been recorded and nothing will be lost regarding what has been talked about. He noted we are mandated to have an approved budget and are subject to audits and expectations. We need to have an approved budget. Coletti said the budget seems to be driven by our history – which most are and that is understandable. He said it was good to have the issues and challenges document, but the budget seems to be more based more on history rather than how to incorporate the issues and challenges. That would have made him more comfortable to look at compromises that could have been done that would have brought that large negative number down. Carol’s conservative estimates may mean that numbers come down, but right now he feels we’ll end the year still in the negative. We look at our actuals and have budgeted numbers and sometimes we go under and sometimes over, but this has to be watched more closely. He stated he feels there are a lot of good ideas in the issues/challenges, but he’d feel better if some of them had been incorporated.

Hoffman stated she felt the discussion had been good and can see why those from the private sector would question why such a budget would ever be approved. She noted that things happen. In 2011 there was a $558,000 bad debt---we paid that. She suggested she make a motion and he could add a friendly amendment instructing RF staff to go through this and bring back to the board in six months, or at every meeting after this, different solutions that they considering. There may be others to consider. Coletti stated he was comfortable with that especially since they have to approve this. Sager commented that they track indirect recovery every month and she has schedules that compare one year to another. She will know how they are tracking toward the $2.4 million. Having said that, she noted a lot of indirect recovery is in the Spring, but she will be able to compare. She added if it would make the Board more comfortable, they could put off some of the discretionary items that they have control over until they see how income is doing. Hunt stated that income has been way underestimated in the past. If they were to bring in at historical levels, the number gets cut in half. It looks like a big number and he’s not comfortable, but if $3.1 came in it would zero out. Members agreed that probably wouldn’t happen, but Sager stated she could tell them every month what they just did and where we are compared to 11/12. That might provide more confidence.

Move to accept the proposed 12/13 RF budget with a goal from the Board that RF staff, at every meeting, provide a 15-30 minute update on where we are with income generation, where we are on expenditures and possible reductions, as well as future strategies for a mix of income generation as well as cost reductions. (Hoffman/Coletti)

Zingg stated that he is assuming that nothing is off the table in the conversations ahead, for example, 25 & 35 Main. Hoffman responded yes. As a point of discussion, with the help of Fred
Woodmansee, she would like to bring back to the Board some of the money that the University actually does still give the RF to help support 25/35 Main St. as a long term proposal. She agreed nothing would be off the table except salaries and benefits because as they are approving the budget today it also includes salaries and benefits.

Colbie asked if that included the 3% increase. Hoffman responded that was only KCHO. Finley clarified other salaries and benefits are flat. There are no increases.

Zingg provided time for any additional questions or comments prior to the vote. Colbie stated he just wants to know the Board is willing to do what it has to in order to make the change for next year and work on it. Zingg responded that is expected within the framework of the motion. The bottom line is that this is not satisfactory. The second bottom line is to resolve it.

**Motion carried. (9-0-0)**

7. Other Business
   a. **Research Foundation Operating Agreement**
      Finley explained that the Research Foundation is in the process of renewing its Operating Agreement. This is a requirement for any auxiliary in the system to have in place. A draft has been drawn up for signature. It is basically a continuation of the current agreement authorizing our primary function and additional functions.

   b. **Research Foundation Attorney of Record**
      Finley explained that one of the requirements of an auxiliary is to have an attorney of record in addition to having an external auditor. Information was provided in the agenda packet. She noted our external auditor was accepted by the Chancellor’s Office review process. We do not currently have an attorney. The Auxiliary Organizations Association recently went through a process to obtain legal counsel and as part of that RFP was a provision that auxiliary organizations would be able to utilize the attorney services at a reduced rate. The individual does have auxiliary experience. We haven’t had the need for an attorney for some time, but we do need to have an attorney of record should some issue come up. It is a non-financial retainer agreement. She recommended the Board approve entering into the non-financial retainer agreement.

      **Move to approve. (Colbie/Thoma) Motion carried. (8/0/1)**

   c. **Special Set-Ups**
      Finley stated there are no special set-ups to report.

   d. **College Park Houses**
      Finley reported the sale of the first four College Park houses to the University. They will be working on three more for this coming year.

   e. **Meeting Schedule**
      Finley noted this item has been on the agenda for at least two meetings hoping there could be a discussion on whether quarterly meetings are sufficient. Not all the business and discussion seem to be accomplished in just a two-hour meeting, or perhaps it would be appropriate to establish some
subcommittees. She asked what the Board’s pleasure would be in terms of alternatives including the current quarterly or perhaps every two months, or extending the meetings to three hours. At the training session, community members had commented that the distance between quarterly meetings sometimes makes it difficult to stay up to speed. Thoma suggested that given the budget situation perhaps they should meet every other month. Hunt asked if the Provost would be taking over as chair of the Board and suggested that the subject be taken up after her arrival. All agreed.

f. Board Subcommittees
Finley explained there was a need to appoint the audit committee. The likelihood is that the Board will not meet again until after the audit committees needs to have met. Dan Hunt is the only member of the audit committee continuing on the Board. Colbie volunteered as did Hoffman since she is no longer Treasurer. Jonathan Day volunteered to continue on the audit committee for continuity even though he will no longer be a Board member. Dan Hunt declined continuing on the audit committee due to a possible conflict. Tim Colbie will serve as chair.

8. Adjournment
President Zingg acknowledged and thanked Jonathan Day and Rick Coletti for their service on the Board. He adjourned the meeting at 5:44 pm.

Respectfully submitted,

Karen Finley, Secretary/Treasurer