

SONOMA STATE ENTERPRISES, INC.

Minutes

Friday, November 16, 2007

MEMBERS PRESENT: Dr. Ruben Armiñana, Mr. Yale Abrams,
Dr. William Barnier, Ms. Letitia Coate,
Mr. Neil Markley, Ms. Whitney Diver,
Ms. Nicolette Margi, Ms. Whitney McClure,
Dr. Eduardo Ochoa, Joan R. Palmer,
Dr. Peter Phillips, Mr. Floyd Ross,
Mr. Tim Tiemens

MEMBERS ABSENT: Dr. Carlos Benito

OTHERS PRESENT: Mr. Laurence Furukawa-Schlereth,
Ms. Jenifer Crist, Mr. Ryan Ernst,
Mr. Walt Leonard, Mr. Eric Malvestiti,
Mr. Jim Morgan, Mr. Dan O'Brien,
Ms. Patricia Sinclair, Ms. Jessica Way,
Mss. Carmen Wilson

07.11 Call to Order

The meeting was brought to order at 9:35 a.m.

07.12 Approval of the September 7, 2007 Minutes

Minutes approved unanimously.

07.13 Seating of New Student Representative

Ms. Nicolette Margi was introduced as a new student representative to the Board. Dr. Armiñana also announced that today was her birthday.

07.14 Student Appointments to Finance Committee and Audit Committee

Student committee appointments were made. Ms. Diver was appointed to the Audit Committee and Ms. Margi was appointed to the Finance Committee.

Following is a list of the current committee membership:

Executive Committee Members: Dr. Armiñana, Mr. Markley, Ms. Coate, Dr. Benito, Mr. Ross, and Ms. McClure.

Finance Committee Members: Ms. Coate, Mr. Markley, Dr. Barnier, Mr. Ross, Ms. Margi, Mr. Bill Ingles (non-voting), and Ms. Paulette King (non-voting).

Audit Committee: Mr. Abrams (Chair), Mr. Phillips, Mr. Tiemens, and Ms. Diver.

07.15 President's Remarks

Dr. Armiñana indicated that enrollment levels have been healthy at SSU and throughout the CSU system overall. He announced that the system as a whole is carrying almost 10,000 additional students. SSU currently has approximately 300 additional students. He discussed the impact of

this and how it relates to SSU. Specifically, he pointed out that schools are docked when they are below target, but do not receive additional funds when they go over target. Dr. Armiñana anticipates SSU to carry a similar number of students next academic year.

Dr. Armiñana discussed the current budget situation for the state reflecting on the anticipated \$12-\$15 billion deficit for next fiscal year. All state agencies have been asked to submit 10 percent reduction plans, however, the CSU and UC have not been asked to do so at this time. He is waiting to see what the Governor will do with the budget and hopes that the Compact will be upheld. The Compact includes additional revenues of \$322 million. The Board of Trustees requested additional funding above this amount for teaching and evaluation as well as high cost programs such as Nursing. However, Dr. Armiñana feels that the chances of receiving this additional funding are very small. Overall, Dr. Armiñana is predicting a difficult year ahead.

07.16 Report from SSU Vice President for Administration and Finance

Mr. Schlereth spoke to the Board about five campus wide issues that directly relate to SSE: (1) Board of Trustees approval of the amendment to the non-state funded capital outlay program, (2) staff development program, (3) new investment advisor opportunity, (4) CMS project, (5) Faculty & Staff Housing land.

- ***CSU Board of Trustees approved an amendment to the non-state funded capital outlay program*** – the nature of this amendment permits the University to proceed with the implementation of approximately 6 utility infrastructure investments on campus that are directly related to sustainability and the campus strategic plan because it allows the campus to reduce energy consumption by 15% which is also consistent with the CSU's executive order. The concept is for money to be borrowed through the CSU Financing Program which will be paid back with the money that is saved. Mr. Schlereth believes that more initiatives like this one will follow. This item was approved by the Campus Reengineering Committee.
- ***Staff Development Program*** – Mr. Schlereth pointed out the Faculty Development Program and noted that a program has not really been put in place for staff members. He introduced a similar program for staff entitled CSU: E-Learning. This program offers 300 different types of courses that are available to staff online for an entire year. The cost is \$119/employee which would be approximately \$60,000-65,000 for all staff employees. Mr. Schlereth indicated that this cost will be paid from the Division of Administration and Finance through salary savings. He is currently working with HR to implement and is hopeful that staff will find value in this program. This program will be provided to ASI and Student Union employees as well.
- ***New Investment Advisor Opportunity*** – Mr. Schlereth announced that there are nearly 100 auxiliary corporations affiliated with the CSU. Each of these has varying investment opportunities. Typically, a large investment portfolio allows for a greater return on investment. Therefore, pooling resources of auxiliary organizations across the CSU may allow for this return to be enhanced. Mr. Schlereth participated on the committee which conducted a system wide competitive RFP process last year to select an investment firm. The selected firm was Citicorp Smith Barney. The lead group is located in Santa Rosa. He suggested that the SSE Finance Committee meet with this firm to see if this is something that SSE would be interested in.
- ***CMS Project*** – Mr. Schlereth informed the Board that he is always looking at ways to enhance student services and the overall student experience. Using the CMS project through Peoplesoft, Mr. Schlereth is hoping to rollout new functionalities that will allow students to view and/or purchase their textbooks when they register for classes. He feels that this issue could be controversial because it takes advantage of the link to Barnes & Noble. He stressed that this is not an SSE decision, but rather a campus decision. Therefore, Mr. Schlereth brought the matter to CRC for discussion and is hoping to receive a recommendation from this committee on December 7, 2007. He also asked for feedback from the ASI and the Academic Senate.

- ***Faculty and Staff Housing Land*** – Mr. Schlereth reminded the Board that SSU asked SSE to purchase land on behalf of the Parking and Housing Programs which would be resold to SSU for the purpose of providing Faculty and Staff Housing for the campus community. SSE was asked to purchase the land for two reasons: (1) SSE could move faster at the time of purchase and (2) it would be easier for SSE than the state to sell the land should it be decided to do this. As a result of continued delays in developing this land, there have been discussions as to whether or not SSE should continue to hold this land or if it should be sold. Mr. Schlereth brought this matter to the Faculty and Staff Housing Committee as well as the University Housing Program for discussion. It was the unanimous recommendation by these groups to SSE to continue holding the land for the University while these issues are resolved. In addition, the Housing Program is in extremely high demand with an extended waiting list even with the addition of Tuscany coming on line.

Discussion ensued regarding Mr. Schlereth's report. Dr. Armiñana indicated that the land purchase has been a good investment for the Corporation as he is under the impression that the land has appreciated. Mr. Schlereth agreed and added that the land has a tiger salamander certificate specifying that the land is tiger salamander free which makes the land more valuable.

Dr. Phillips requested information about SSE's investment policy and would like to see the organization involved in socially responsible investment funds. Mr. Schlereth pointed to a resolution by the CSU Board of Trustees to do exactly this. It was passed some years ago. Mr. Schlereth is confident that Citicorp Smith Barney would have to comply with this socially responsible investing.

Dr. Phillips requested additional information about the E-Learning program. He was unsure how employees would take advantage of this program. Mr. Schlereth is hoping this is what he will find out and is hopeful that they will. He noted that it was enthusiastically received when presented last Friday. It is Mr. Schlereth's belief that the Appropriate Administrators should allow employees to participate in these sessions during work time because they are directly related to their work. Ms. Coate added that this is a campus wide program for staff. Mr. Markley brought this idea to the directors in his area and they are excited and supportive of the program because it is a very good value given other trainings that are available in the area. In addition, given that it is to be completed at their work station, the time required is much less. Finally, it was indicated that an assessment will be conducted to determine how this program was utilized.

Further discussion ensued regarding the financial relationship between SSE and the Housing and Parking Programs regarding the FSH land. The financial relationship between these entities is to ensure that all units remain whole while SSE continues to hold the FSH land for the University. Dr. Phillips requested clarification on this relationship. Specifically, he was unclear as to why the University was paying rent of \$295,000 to SSE to hold the land. Mr. Schlereth explained that when \$4 million left SSE for the purchase of the land, that meant that SSE would no longer gain investment income on that money. Therefore, SSE was losing investment income and money to its bottom line. At the same time, Parking and Housing are still holding \$4 million they would have used to purchase the land and have invested this money making a larger investment income for these entities. Therefore, SSE loses while Housing and Parking gain. This didn't seem right between the entities; therefore, an agreement was established to reimburse SSE for their loss of investment income in order to acquire the FSH land. Dr. Phillips felt that this financial arrangement is a transfer from a restricted fund to a non-restricted fund. Mr. Schlereth indicated that this was not correct. He further reiterated that this agreement is like any other investment that produces revenue. Dr. Phillips felt that everyone is here to benefit the University so why SSE receives rent on land that isn't being used was unclear and did not make sense. Mr. Schlereth provided an example to help clarify the issue being discussed. SSE could have invested the \$4 million into General Electric Stock. Therefore, SSE would be paid a dividend from this stock. However, because the money is being invested in land, SSE no longer has this opportunity and is instead receiving a return that is similar to that received on any other asset. Dr. Phillips continued to

express confusion because he could not understand why SSE was receiving rent if SSE was not intending to make a profit when selling the land to the University. Joan R. Palmer added that she felt this agreement made tremendous sense. Further, she feels that this is a great benefit to the University because it is saving the University a substantial amount of money because the University is not required to purchase the land at a higher rate in the future. This is a way to hold the land and make it viable between the two organizations. Mr. Abrams explained that this payment keeps SSE whole while the money is tied up in land. Dr. Ochoa indicated that perhaps this matter should be looked at differently and that Parking and Housing should pay fair market value for this land because it could alleviate institutional constraints on this money. Mr. Markley included that SSE is trying to save up for two major initiatives: University Center and Hospitality Center. He noted that when the Board made the decision to purchase the land, they wanted to remain whole on that transaction to support the large projects that are coming. If some type of investment is not received for this transaction, then these other projects may go away. It is a balance of priorities. Mr. Schlereth identified that this is ultimately a board decision and at SSE's discretion. Should the Board decide to sell the land, they can make that recommendation to the President as the chairman of the Board and President of the University. He just wanted to be sure to report to the Board that the entities which asked SSE to purchase the land in the first place have respectfully and unanimously asked the Board not to sell the land. There is no motion to do so, however, discussions are taking place. Mr. Markley noted that should SSE relieve the payment at this time, the project that would likely be in jeopardy is the University Center. From an operational standpoint we can't let this happen due to the needs required in our current facilities. This project is extremely important to our students and certainly the residential students.

07.17 Chief Operating Officer's Report

Mr. Markley announced that his comments will be brief to allow ample time to get to the audit report. He reiterated that the focus is on the student experience and presented a PowerPoint presentation which reviewed the following areas:

- **Housing** – Housing is close to one hundred percent occupancy. Mr. Markley expects a strong demand for housing for the Spring 2008. The waiting list is extensive and if enrollment holds, he expects a waiting list of nearly 600 students for returning students in Fall 2010. Further, he wouldn't be surprised if additional housing discussions take place in the future even with the addition of Tuscany. Mr. Markley feels this is good because it shows a high housing demand.
- **Dining Services** – This area is going strong. Revenue has increased nearly 17% over last year in cash operations (or 13% if Dining Dollars are excluded). This number has held constant. Mr. Markley noted that residential dining revenues have increased as well. Overall, sales are doing very well. Transaction counts are up 10% as a result of people buying more items when they go into venues.

Dining is exploring options to alleviate pressure at Charlie Brown's during peak periods as this venue because it becomes very crowded at break and peak times. The options being explored include: expanding Charlie Brown's which needs to be looked at further (this requires significant investment) and installing remote ordering kiosks to allow customers to pay via Wolfbucks and pick up product at counter. This option adds an extra register without putting people in the same line.

- **Marketing** – Ameci's is offering a new dessert which is baked cookies with ice cream on top. Mr. Markley informed the Board that Friday's at Four is today. Some of the items that will be served at this event were shared by the Executive Chef, Eric Malvestiti. In addition, new table tents being used in the Dining venues were passed around. Mr. Markley noted that one of the marketing goals is to expose Freshmen to the dining options available on campus. One way they are doing this is through Dining Bingo. Unfortunately, participation numbers in this promotion were lighter than hoped. Another way they are getting the word out is through marketing emails for students who chose to

- participate. “Keeping it Fresh” is a different way that marketing is trying to enhance the dining experience. Each venue is introducing new items, for example, this month each area is focusing on Thanksgiving items. Seawolf Card had a swipe and win contest that was very successful. Items given away in marketing raffles are donated through the various vendors that are used by SSE. In addition, marketing is trying to get the word out about sustainability measures being used in the dining areas by highlighting local growers and vendors that are used. These are posted on the website and hope to eventually post in the dining units. Finally, working with the composting club and the Facilities Department, dining is trying to launch composting in dining venues and have it work in an effective manner.
- **Hospitality Center** – On target to open the fall of next year. Currently we are waiting for the budget for the cost of this project. We have estimates, but are waiting for firm numbers. The design is getting finalized and purchasing of equipment is beginning to take place.
 - **University Center** – Some analysis has been taking place regarding the needs of the dining facility in this center. Meetings are going to start up again at the end of November. Meetings have been on hiatus in order to complete this analysis. This will be picking up steam shortly.
 - **Bookstore** – Mr. Markley encouraged Board members to go over and visit the store to see the many improvements that B&N has done to the existing facility. He thanked Jim Morgan, Bookstore Manager and B&N for all their hard work in making this facility look so good. Sales are ahead of last year. Of note, clothing is doing extremely well. For one month, the store carried items that were related to breast cancer awareness where a portion of the profits were donated to breast cancer. In addition, the Bookstore is having 25% off all champion products through November 25th.
 - **ATI** – Mr. Markley informed the Board that we are awaiting direction from the University in how we are to proceed. The Bookstore is dedicated to helping in any way they can with this initiative.
 - **Assessment** – An assessment has been conducted including all of the Entrepreneurial Activities areas which are all the areas that fall under Mr. Markley. A draft report was received and the final report should be following shortly. Mr. Markley plans to bring these results to SSE to share once they have been received.
 - **Student Experience** – Mr. Markley informed the Board of a recent decision that removed sponsorship funding for the Basketball Tournament. A lot of controversy and discussion took place regarding the funding for this tournament. Some areas of the campus did not feel that it was appropriate for the Army to sponsor this event. At a recent ASI Board meeting, Pat Fuscald, Head Basketball Coach, gave a very moving presentation about the tournament. Mr. Markley was moved by what Mr. Fuscald shared and thought it would be nice to be able to help in some way otherwise the tournament was not going to happen or other funds were going to have to be used to fund the event which would ultimately take away from other student programs. ASI President Diver approached Markley after the meeting to see if there was anything that SSE could do to assist. The expense for this tournament is around \$15,000. As a result of the money donated by B&N we are going to be able to help fund this event. ASI is funding \$7,500 and SSE’s partnership with B&N allows SSE to fund an additional portion.

07.18 Chief Financial Officer’s Report

Ms. Coate reported on the current operations through the end of October. She noted that SSE is doing well in sales and on target with expenses. Overall, Ms. Coate reported that SSE is on target with the budget and doing very well.

07.19 ACTION ITEM: Approval of 2006/07 Audited Financial Statements

Mr. Abrams lead this discussion. He thanked Mr. Tiemens and Dr. Phillips for their participation on this committee. Mr. Abrams introduced Carmen Wilson from Stonefield Josephson, SSE's Auditor, who was going to present the audit to the Board. Ms. Wilson noted that these items were reviewed in-depth with the Audit Committee previously and she proceeded to review a PowerPoint Presentation that discussed the audit process and audited financial statements of the corporation.

There were no questions from this audit report. Mr. Abrams thanked Ms. Wilson for the report and all the hard work conducted by the staff for their assistance.

The Audit Committee recommended that the full Board accept the audit.

MOTION: The Board approved the audited financial statements for 2006/07 with one abstention from Dr. Phillips.

07.20 Other Non-Action Items

Dr. Phillips provided an editorial from the Sacramento Bee, published on November 11, 2007 in regards to Sacramento State Enterprises (handout). Dr. Phillips would like SSE to be talking about having a policy of full transparency, that the Corporation not engage in contracts that are private, and that the Board have full disclosure. He would like this to be done so that SSE does not receive bad publicity. In addition, he would like to add this to the agenda for further discussion and exploration. Dr. Barnier expressed a desire to have this on the next agenda for further discussion as well. Discussion ensued.

Ms. Diver thanked Mr. Markley and SSE for helping to sponsor the Basketball Tournament. She is hopeful that the issues surrounding the funding of the tournament will be resolved for future years to come.

Mr. Markley said Happy Birthday to Ms. Margi and Dr. Armiñana adjourned the meeting.

Letitia Coate
Secretary/Chief Financial Officer

Anna Reynolds-Smith
Recording Secretary