

## **SONOMA STATE ENTERPRISES, INC.**

### **Minutes**

**Friday, September 18, 2009**

*MEMBERS PRESENT:* Dr. Ruben Armiñana, Mr. Yale Abrams,  
Ms. Letitia Coate, Mr. Nick Curry,  
Dr. Stephanie Dyer, Ms. Heather Hanson,  
Mr. Neil Markley, Mr. Michael Ogg,  
Dr. Peter Phillips, Mr. Jesse Schwartz,  
Mr. Tim Tiemens, Dr. John Urbanski

*MEMBERS ABSENT:* Dr. Eduardo Ochoa, Joan R. Palmer

*OTHERS PRESENT:* Mr. Laurence Furukawa-Schlereth (via phone),  
Ms. Lisa Andresen, Dr. Julie Bonds,  
Mr. Brett Bradford, Ms. Amanda Craver,  
Ms. Holly Galbraith, Ms. Dawne Gallagher,  
Mr. Eric Malvestiti, Dr. Andy Merrifield,  
Dr. Birch Moonwomon, Dr. Susan Moulton,  
Ms. Jann Nunn, Mr. Peter Neville,  
Mr. Dan O'Brien, Mr. Jeremy Olsan,  
Dr. Bruce Owen, Dr. Christine Renaudin,  
Dr. Jeff Silverman, Ms. Jessica Way,  
Mr. Matthew Williams, Dr. Steve Wilson

#### **09.00 Call to Order**

The meeting was brought to order at 9:30 a.m. by President Armiñana.

#### **09.01 Approval of the May 8, 2009 Minutes**

Minutes were provided to the committee via email in advance of the meeting. There were no comments and/or change to the minutes. The minutes were approved.

#### **09.02 Seating of the Board**

The President welcomed the new members.

#### **09.03 Committee Appointments**

Committee appointments were made. Following is a list of the current committee memberships:

Executive Committee: Dr. Armiñana, Mr. Markley, Ms. Coate, Dr. Dyer, Mr. Tiemens, and Ms. Hanson.

Finance Committee: Ms. Coate, Mr. Markley, Dr. Urbanski, Mr. Ogg, Mr. Curry. Mr. Bill Ingles (non-voting) and Ms. Amanda Visser (non-voting) will continue to serve as non-voting members.

Audit Committee: Mr. Abrams (Chair), Dr. Phillips, Mr. Tiemens, and Mr. Schwartz.

#### **09.04 Conflict of Interest Presentation Non-Profit Integrity Act**

Mr. Jeremy Olsan, the Organization's attorney, distributed to the members of the Board the annual letter informing Board Members about their duties, conflicts of interest, and the Non-Profit Integrity Act. He provided one original and one copy to each Board Member requesting that, after the presentation, they check the box that they attended today's meeting, sign one copy and return it to SSE staff to be filed.

Mr. Olsan reviewed the attorney letter emphasizing its main points. He also discussed the Conflict of Interest statements and reviewed the responsibilities of the individuals and the organization under the California Non-Profit Integrity Act. Mr. Olsan emphasized the important role that each person is taking as a Board member and the fiduciary duties that go along with their position on the Board. He stressed the need for each member to act in the best interest and good faith of the organization, especially during difficult economic times like these.

Questions were taken from the board. Dr. Dyer requested clarification on paragraph 9. Mr. Olsan clarified this paragraph explaining that when a board member is quiet and/or abstains from a vote, it could be considered guilt by association under the education code when the board takes an action that is illegal. Therefore, it is prudent to vote "no" to create a clear record of your objection. There were no further questions at the conclusion of Mr. Olsan's presentation.

#### **09.05 President's Remarks**

Dr. Armiñana briefly discussed the current state budget situation and the impacts this has at SSU. He noted that there are approximately 320 less students from the last semester; Housing has approximately 326 less occupants; the Meal Plan has approximately 160 less participants from the previous Fall semester; Housing occupancy rates are at about 80% which has generally run closer to 92-95%; and the Spring 2010 semester could see even lower numbers because SSU is not accepting any spring admits. He emphasized that SSE depends on student headcount, therefore, these lower numbers will have a direct impact on the organization and are extremely relevant to the upcoming budget discussion. Dr. Armiñana anticipates that these numbers may go down even further due to the additional 78 FTES reduction anticipated for next year which translates to about 100 headcount. He thinks the picture could get worse before it gets better.

#### **09.06 Chief Operating Officer's Report**

Mr. Markley indicated that he planned to keep his comments brief as a result of the busy agenda. He touched on some key points:

- *Dining Services* – Mr. Markley gave a special thanks to the Dining Team for all their continued hard work and the wonderful year they had last year. He also thanked all the organizations that support Dining Services including Conference and Events, Housing, Sea Wolf Card and others for their hard work. He noted that Dining Revenues exceeded the budgeted revenue and some of the contributing factors include: enrollment was higher than anticipated, Conference and Events revenue came in higher than anticipated and Wolfbucks deposits were up significantly which directly translates to sales. In addition, food costs were held very low and performed much better than budget which was a tribute to all of the Dining Staff and particularly to Eric Malvestiti, Executive Chef for his hard work

and oversight. Further, compensation was down as a result of some vacant positions. Overall, these key factors contributed to a very positive year and is a direct result of the continued hard work done by Dining Services and the rest of the staff who support this area. In addition, Dining Services has continued its efforts in sustainability. These will continue in the current year as well. Of note, trays were eliminated from the Zinfandel Dining Hall which was not only a sustainability initiative, but helps manage food costs as well.

Although Dining Services had a good year last year, Mr. Markley is anticipating a challenging year ahead. He noted that there will be about 10% less workers to do nearly the same amount of work due to furloughs. The Zinfandel Dining Hall will remain open during the furloughs, therefore, Dining Services will need to redeploy workers to help cover the Zinfandel Dining hall operational needs. Thus, the cash operations are reducing hours by about 10 percent. Many of these venues will be closed on Fridays to cover Zinfandel and include: the University Club, Toast, and Commons.

- *Housing* – The Residential Program drives SSE. Unfortunately, there are approximately 160 less students participating on the Dining Meal Plan this year as a result of fewer Freshmen in Housing. Mr. Markley is anticipating that this number will go down further in the Spring. Therefore, this has led to a significant reduction in the Board Plan which is the general driver for SSE revenue. Mr. Markley anticipates that the participation number will go lower in the Spring as a result of no new admits in the Spring semester, therefore, negatively impacting the Board Plan.
- *Senate Bill 218* – The general concept of this bill is that all areas are to be transparent and Enterprises would be subject to this bill. Mr. Markley noted that SSE made a commitment last year for further transparency of the organization and nearly all contracts are currently open for review. Therefore, SSE already follows the spirit of this legislation and it would certainly comply with the letter of the law if passed.
- *Conflict Of Interest* – The campus Chief Financial Officer has asked for a group to form to review Conflict of Interest practices. Currently, he feels all organizations are operating in an ethical, moral and legal manner in regards to Conflict of Interest, however, Mr. Schlereth would like a group to review this to see if the campus auxiliaries should go above and beyond what the law currently requires. More will be reported on this in the future.
- *Sustainability* – Efforts in sustainability will continue. There is a SLOW Foods event in October. Dining has been and continues to work with SLOW Foods to further the SLOW Foods movement.
- *Next Year* – At this point it is unclear as to what will happen next year. There are lots of challenges ahead and Mr. Markley wants to position the organization for the future. He anticipates that things will be even more challenging in the coming year and he will continue to keep the Board up to date on these matters. In addition, he will keep the Board up to date on the other self support funds because these have an impact on SSE.

Mr. Markley concluded his report and took questions.

### **09.07 Chief Financial Officer's Report**

Ms. Coate reported that the Audit was completed on time. She recognized the work of the Accounting and Enterprises managers for their hard work during the audit and throughout the year which ultimately leads to having a successful audit. She deferred the remainder of her report to the budget discussion.

### **09.08 ACTION ITEM: Approval of 2008/09 Audited Financial Statements**

Bound copies of the Audit Report were provided to the Board members. Mr. Abrams introduced the item informing the Board that the audit committee met earlier in week to review the audit in detail. He also noted that it was a clean audit. He asked Mr. Bradford and Mr. Williams from Piseni & Brinker to review the audit and highlight the main points for the Board. Mr. Bradford went through the report with the Board. He noted some of the changes from the previous year and pointed to the management comments provided in the report. Overall, there were no findings, the auditors were satisfied with the internal procedures and controls, and SSE received an unqualified opinion.

Mr. Abrams thanked the auditors for their work and reported on some additional comments that were mentioned at the audit committee meeting: (1) the audit committee realizes that there will be a reduction in enrollment due to state budget issues which will have a negative impact on SSE revenue and will only partially be off-set by a consequent reduction in expenses. (2) We are still not able to develop the land SSE purchased for housing a few years back, however, the University is still paying rent at the original rate. It may be a good idea to review this agreement. Mr. Abrams indicated that he realizes the Board has a fiduciary duty to the Enterprises organization, however, he feels that SSE is here to benefit the University, so if a change in that agreement may accrue to the overall benefit of the University, it may be a good idea to relook at it. Mr. Schlereth agreed and indicated that they would relook at this. Mr. Markley added that the ownership of the land was a concern that was raised last year. This concern was brought to the Faculty Staff Housing committee which unanimously asked SSE not to sell the land. This was reported and brought to CRC for further discussion. The recommendation by both these committees was made to not sell the land. (3) There were a couple points brought up by the auditors that the Finance Committee might want to address: (a) SSE should consider a policy that addresses custodial risk related to investments and (b) SSE should consider a policy that limits the amount that may be invested in any one issuer. He noted page 17 for additional information on this.

Finally, Mr. Abrams brought a recommendation forward from the Audit Committee and he moved for the Board to accept that audit for the fiscal year which ended June 30, 2009. Mr. Phillips seconded the motion. The motion passed unanimously.

### **09.09 ACTION ITEM: Approval of 2009/10 Budget**

#### **Sub-Topic: Discussion on the Consideration of Allocating SSE Surplus Funds to Classroom Instruction during the Fiscal Crisis.**

Handouts were provided to the Board. Ms. Coate introduced the Budget. She noted that the budget was prepared by the COO and in consultation with the directors in his area and financial staff. She also indicated that she reviewed the Budget as the CFO and concurred with the proposed budget. As a result, Ms. Coate brought the budget to the Finance Committee on Wednesday, which reviewed this budget in detail. The Finance Committee unanimously recommended that this budget be approved and made that recommendation through Ms. Coate as the Chair of the Finance Committee. Prior to voting on the item, Ms. Coate requested that Mr. Markley review the Budget in detail with the Board. Mr. Markley reviewed the 08/09 actuals and the proposed 09/10 Budget in detail with the Board.

Mr. Schlereth thanked the Board for the opportunity to phone in for the meeting. A handout was provided to the Board. Mr. Schlereth provided additional comments for consideration as a part of the Budget discussion. Mr. Schlereth indicated that all SSU auxiliary organizations are evaluated by him and are required to have a balanced budget. Therefore, expenses cannot exceed revenue. He noted that the Budget being considered is a balanced budget. Second, if an auxiliary organization has debt, it is required to pay this debt as a first requirement. He feels that this budget has built in sufficient resources to cover SSE's portion of debt. Third, obligations owed to other campus funds (rent payments, EO1000 charges, etc.) need to be reflected in budget

and are a priority. He feels that these have been accurately reflected in this budget. Finally, for auxiliary organizations that have debt, there are additional requirements that the Board should consider relating to EO994 which is a policy that requires the campus CFO and Campus President to establish and maintain appropriate requirements for funds that have debt specifically in the area of reserves. In compliance with EO994, the campus Chief Financial Officer recommends four types of reserves: (1) working capital (liquid cash) at a minimum ¼ operating, (2) catastrophic event at a minimum of 1 year debt service payment, (3) major maintenance and capital renovation (for SSE is a minimum amount to replace some of the Dining Venues and campus Bookstore,) (4) capital development for new projects as determined by the Board.

In looking just at the first two categories, Mr. Schlereth indicated that SSE should have approximately \$2.4 million in liquid reserves. These are reserves that could be immediately turned to cash for working capital and debt payments. However, when looking at the current reserves, there is only approximately \$1.3 million against a \$2.4 million requirement. The CFO's advice to the Board is that the Corporation needs to make material progress in the 09/10 and the 10/11 year to get the reserve levels up to at least \$2.4 million. He noted that this is not an unusual request from his office. He realizes that it is tough year given the enrollment decline and is hoping that the proposed budget can be shaved a bit to increase these reserve requirements.

Dr. Armiñana requested any further discussion on the budget. Dr. Phillips discussed the consideration of allocating SSE surplus funds to classroom instruction during this fiscal year. He stated that there are currently 7595 FTES registered at SSU which is roughly 8500 headcount. Dr. Phillips stated that if 320 in headcount were lost, that is a very small percentage. He noted that some will be lost in December as a result of Graduation. Dr. Phillips asked different schools how many classes are going to be cut in the Spring and reported that the School of Social Sciences was about 50 classes, Science and Technology was about 60-80 classes. Based on this information, he anticipated that there will be between 150-200+ classes to be cut this Spring which he translated to be approximately 6000 seats for the 8000 students. Dr. Phillips feels that this is an educational crisis and is a significant problem that the SSE Board could help address. He wants the Board members to think of the possibilities for SSE to provide some money on a one-time basis for classroom instruction for the Spring. In looking over the Budget, Dr. Phillips felt that there were some areas in question. Specifically, he noted: the anticipated 12% reduction in revenue which he feels is too large a reduction, compensation numbers indicating that it might not be necessary to fill the 3 vacant Dining positions, operating expenses, rent for the Hospitality Center, University Center pre-project expenses. He urged the Board to seriously look at and perhaps form an emergency committee to adjust the budget to pay for approximately 100-150 class sections equating to \$500-\$750K for the Spring. He believes that the Board can do this and that it has the responsibility to do so.

Dr. Armiñana asked if there was any further discussion on the budget. Hearing none, Dr. Armiñana brought the item to a vote. Dr. Phillips made a point of order asking to exclude members of the Board from voting on the budget item if their salaries were reimbursed by SSE because he felt that by voting on the budget, they would be voting for their salaries. This point of order was denied. Dr. Phillips made a second point of order requesting to hold a secret ballot for the budget vote. This point of order was denied. Dr. Armiñana brought this item to a vote, after which a discussion took place in which three Board members discussed possibly changing their votes, so a second vote was taken, with a show of hands, because the first voting results were unclear. The second vote tally was 9 yeas and 3 nos (Dr. Phillips, Dr Dyer, and Mr. Schwartz). The motion passed.

### **09.10 Other Non-Action Items**

Mr. Markley requested that the Board members provide the Conflict of Interest documents to Anna Reynolds-Smith as soon as they are available.

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Letitia Coate  
Secretary/Chief Financial Officer

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Anna Reynolds-Smith  
Recording Secretary