



*The Foundation for
California State University, San Bernardino*

BOARD OF DIRECTORS MEETING

Thursday, March 20, 2008 - 4:00 p.m.

Foundation Board Room

MINUTES

Pursuant to notice given, the Board of Directors of the Foundation for California State University, San Bernardino convened for a regular meeting at the Foundation Board Room located on the campus of California State University, San Bernardino, 5500 University Parkway, San Bernardino, California, on March 20, 2008, at 4:00 p.m.

Members Present:

Dr. Albert Karnig, Chairman
Dr. Frank Rincón, Director
Dr. Dorothy Chen-Maynard, Director
Mr. Philip Savage, III, Director
Mr. David DeMauro, Treasurer

Ms. Lois Carson, Director
Mr. George Gorian, Director
Mr. Rex Jackson, Director
Dr. Louis Fernández, Director
Dr. Edward Teyber, President

Members Absent:

Judge Stephan Saleson, Director
Dr. William Aguilar, Director
Mr. Robert Fullerton, Vice President

Dr. Darleen Stoner, Director
Mr. Anthony Conley, Director

Others Present:

Ms. Deborah Burns, General Manager
Ms. Lisa Iannolo, Finance Manager

Mr. Bill Takehara, Assistant Treasurer
Ms. Kelly Adcock, Exec. Assistant

Actions taken by the Board on the agenda items are attached. The meeting adjourned at 6:29 p.m.

Secretary

Agenda Item A – Call to Order/Introductions

President Teyber called the meeting to order at 4:13 p.m. A quorum was declared. The following guests were present: Mr. William Takehara, Associate Vice President for Financial Operations.

Agenda Item B – Welcoming Remarks

President Karnig provided an update on University activities:

- The construction process is expected to last another two years. In addition to the completion of the Chemical Sciences Building, a 37,000 sq. ft. Recreation and Fitness Center was added to the campus. The Biological Sciences Building has been completely remodeled, and the Physical Sciences Building is currently under renovation. The College of Education Building is scheduled to be completed in May of this year, which is about the same time the fourth building on the Palm Desert Campus will be complete. The last wave of construction will be in 2010, with the construction of a 500-seat theater added to the Performing Arts facility.
- President Karnig stated he would like to see the quarterly Board meetings held at other campus locations. He feels we have an attractive campus and with all the new construction, we would be able to better appreciate the campus.
- This year, fundraising efforts are expected to reach \$40 million. The University is expecting to receive two large cash deferred gifts, as well as a \$4 million Health Diversity Grant from the National Institute of Health Services (NIHS). The NIHS will also be granting the University \$14 million to track children's health. Both these grants were largely led by the Psychology Department and their faculty members. The University has the fifth highest volume of grant and contracts among the 23 CSU campuses.
- The following new degree programs are being offered:
 - Doctorate degree in Education Leadership
 - Bachelor of Science in Computer Engineering
 - Master's degrees in creative writing and fine arts
- The Sam Maloof Exhibit has been the most heavily attended exhibit in the history of the University. The auction raised approximately \$150,000 from the sale of Sam's famous rocking chairs. Sam Maloof is an extraordinary wood master, and currently has a seven year waiting list to build rocking chairs and tables.
- Provost Lou Fernandez will be retiring at the end of this year. The University is currently in the recruiting process for the hiring of this position. Lou has a remarkable array of interpersonal skills, as well as an academic understanding that promotes educational

teachings in the University. Lou has been an extraordinary Provost, and will be missed by the University.

- The current budget is approximately \$3 billion for FY 2008/09. President Karnig reviewed the Governor's Budget, along with the General Fund Budget History and the Planning Budget. The Governor raised the budget by a little over 7%, and then proceeded to cut the budget by 10% overall. Total shortfalls for the CSU system will amount to almost \$4 billion. Health care will be increasing \$2.4 million. Because there is no collective bargaining for health care, this amount will come off the top. Utilities expense increased to \$495 million.

In summary, the University's 2008/09 budget will be cut by approximately \$4.2 million, in addition to mandatory costs of \$3.9 million. Faculty and staff increases are scheduled for June 30th. Because of the already negotiated union salary increases of \$5.7 million, budget cuts will fall somewhere between \$8 million and \$13.8 million.

There was some discussion concerning the budget shortfall, and the impact it will have on the University and higher education.

Agenda Item C – Approval of Minutes from December 6, 2007 Directors Meeting

Recommendation: It is recommended that the Board approve the minutes of the December 6, 2007, Board of Directors meeting.

Background: The Executive Committee recommended the minutes of the December 6, 2007, Board of Directors meeting be presented to the Board for approval.

Board Action: The minutes of the December 6, 2007, Board of Directors meeting were distributed. (Philip Savage/Rex Jackson/Unanimous)

Agenda Item D – Resolution to Authorize Contract Negotiations with Sodexo

Recommendation: It is recommended that the Board provide authorization for Debbie Burns to sign a contract with Sodexo Inc. for dining, catering, and c-store management services with a contract effective date of July 1, 2008

Background: The Foundation management and RFP Committee have previously recommended that the Foundation outsource dining, catering, and c-store management services to Sodexo Inc. Since that time, Foundation management has been engaged in the analysis of Sodexo's proposal to include ongoing negotiations for increased commissions and payment of other costs. The Foundation has also reviewed the advantages and disadvantages of continued self-operation.

Based upon extensive analysis and negotiations, the Foundation recommended moving forward with an outsourcing decision. Sodexo is willing to invest \$765,000 in capital improvements in our

dining/c-store operations. Outsourcing to Sodexo may allow the Foundation to earn up to \$400,000 over the term of the 10-year contract. Alternatively, without reducing services extensively, continued self-operation of dining could result in continued losses of over \$200,000 per year.

In January 2008, the Foundation recommended that Letter of Intent be signed and contract negotiations finalized. A Quorum of the Board of Directors approved this Resolution as a Special Action Item, and the Foundation has moved forward with the contract negotiations with Sodexo. The Agreement is almost finalized, pending legal review, and the Foundation recommends that the Board provide authorization to Debbie Burns to sign the agreement for a July 1, 2008 effective date.

Board Discussion: There was some discussion and concern amongst the committee members over how Sodexo is able to make the economics of dining services profitable, and we could not. Debbie confirmed with the committee that Sodexo is a nationwide/worldwide contractor, which affords them the opportunity of greater buying power. Sodexo will be able to renegotiate all the franchise agreements at a lower royalty rate, with the exception of Starbucks. Sodexo also has the management expertise that is required to effectively operate in the food services industry.

Board Action: The Board approved the resolution to authorize Debbie Burns signature authority for contract negotiations with Sodexo. (Unanimous)

Agenda Item E – Resolution to Authorize Consulting Agreement with College Bookstore Consulting

Recommendation: It is recommended that the Board provide approval for the Foundation to engage Campus Bookstore Consulting (“CBC”) to (1) develop a Request for Proposal (“RFP”) and provide assistance during the RFP process; and (2) to provide consulting services related to reducing the bookstore’s inventory.

Background: The Foundation is recommending that CBC be engaged to determine the service requirements and bookstore needs of the CSUSB campus community; develop an RFP for bookstore management services; assist the Foundation with soliciting proposals from bookstore contract management firms; analyze proposals received from such firms; and to serve as a resource for the Foundation management and RFP Committee throughout the RFP process. The Foundation is also recommending that CBC be engaged simultaneously to provide assistance with reducing the bookstore’s inventory level and assisting the inventory buyout process, with the goal being to maximize the inventory value for the Foundation, if applicable.

Consulting services would begin in February and continue throughout the RFP process, contract negotiations, and inventory buyout, if applicable. Consulting fees to CBC will be \$35,000 (negotiated down from \$38,400), with travel expenses for eight (8) site visits, courier and printing costs estimated at an additional \$4,280.

In January 2008, a Quorum of the Board of Directors approved this Resolution as a Special Action Item, and the Foundation has engaged CBC for assistance with inventory reduction and development of the RFP for contract management.

Board Action: The Board approved the resolution to enter into agreement with College Bookstore Consulting for consulting services of the Bookstore operations and Requests for Proposal. (Carson/Jackson/Unanimous)

Agenda Item F – Resolution to Authorize Sale of Liquor License

Recommendation: It is recommended that the Board provide approval for the Foundation to sell the Liquor License it secured for the Commons/Catering operation for \$12,000.

Background: A type 47-On-Sale General Eating Place liquor license was secured by the Foundation in March 2007 in order to facilitate the sale of beer/wine at catered events managed by the Dining Services Operation's Catering Department. The Foundation's management believed that beer/wine sales would increase revenue. The License Fee was \$12,000.

The license has not been used in the way it was originally intended. Due to budgetary constraints, a locked storage area has not yet been built to properly secure an inventory of alcoholic beverages. Sodexo, (who will assume the management of the dining operation) has indicated that such a license would not be utilized. Note that the Foundation currently holds a type 41-On-Sale Beer & Wine liquor license for its Pub operation in the Student Union which it will continue to renew annually. The Foundation can also obtain daily licenses for special events, as needed.

In January 2008, a Quorum of the Board of Directors approved this Resolution as a Special Action Item, and the Foundation is currently working with the ABC for approval of such sale/transfer of the license.

Board Action: The Board approved the resolution to the Foundation to sell the Liquor License it secured for the Commons/Catering operation for \$12,000. (Chen-Maynard/Savage/Unanimous)

Agenda Item G – Contribution to Californians Higher Education

Recommendation: It is recommended that the Board provide approval for the Foundation to make a contribution in the amount of \$11,800 to the 2008 Election Education Bond, Californians for Higher Education.

Background: The California State University (CSU) will be advocating for a general obligation bond on one of the 2008 ballots (June or November) to fund a capital outlay program. All funds made available through Proposition 1-D of 2006 for CSU have been fully invested in the 23 campuses. The Legislature needs to approve such a proposal before it goes to the voters for their action at the ballot box. The bond campaign may be confirmed in late spring or at the end of June.

All 23 campuses are being asked to make the same level of contribution as they made in the 2006 effort (the Foundation contributed \$11,800 in 2006).

Capital funds are used to build new buildings to provide access to students; improve the quality of existing facilities by renovating or renewing them to meet the needs of the academic program and extend their useful life; address seismic deficiencies and fire/life-safety concerns; improve accessibility, and energy efficiency.

Board Action: The Board approved the Foundation's recommendation to make a contribution in the amount of \$11,800 to the 2008 Election Education Bond, Californians for Higher Education. (Carson/Chen-Maynard/Unanimous)

Agenda Item H – Approval of Children's Center Policies

Recommendation: It is recommended that the Board approve revisions to two existing Children's Center policies: "Harassment Policy" and "Appeals Policy."

Background: The Children's Center was audited by the California Department of Education ("CDE") during the last week of February. There were two findings related to policies that are a part of the Parent Handbook. The policy revisions reflect changes recommended by the CDE.

The "Harassment Policy" has been modified to include the name of the Foundation's Human Resources Director, as well as his contact information. The "Appeals Policy" has been modified to include the name of the Children's Center Director, and all contact information.

Due to the fact that the Children's Center follows Title V regulations, we must obtain Board approval for policy changes and additions. As such, the Foundation recommends that the Board approve these minor policy revisions as presented.

Board Action: The Board approved the Foundation's recommendation to revise two existing Children's Center policies: "Harassment Policy" and "Appeals Policy." (Chen-Maynard/Jackson/Unanimous)

Agenda Item J – General Manager's Report

Debbie Burns provided the Board with an update of the Foundation's financial status and other Foundation activities. Debbie reviewed the General Manager's Report which included YTD financials.

- Bookstore: Sales are up 11%. YTD Net Loss is \$289,495. Month and YTD sales reflect two adjustments. Adjustment of \$171,000 was made in October 2007 to correct prior year data entry. Second adjustment of \$128,670 was made in February, of this year. The February adjustment is the result of identified system errors, which occurred several years ago while transitioning to the PRISM system. The system errors were discovered during the

last couple of months. Holly has been working with Nebraska, who manages the PRISM system, to correct the program. YTD inventory adjustments are approximately \$300,000. The Palm Desert Campus Bookstore has YTD Net Loss of \$10,150, which is close to the break-even point. Personnel expenses for February 2008 reflect the Director vacancy, and reduced student labor.

Debbie is currently overseeing the Bookstore operations. CBC has been reviewing the condition of the Bookstore, as well as identifying inventory problems.

CBC made the following recommendations:

- Improve Textbook Inventory Management
- Increase Textbook Market Share
- Improve Used Book Program
- Improve Personnel Management
- Improvement Plans for Facility Improvements

Debbie assured the Board that we are now on top of the situation in the Bookstore. The dead stock and obsolete inventory has been identified and written off. Because the stock has no value, the Foundation will be taking writing off the balance of \$372,000 in March. Unfortunately, this stock has been sitting in a locked room for the past four to seven years. We did manage to pull out \$20,000 worth of books that still had value; and, were able to receive credit. Rex Jackson asked how the inventory was allowed to build up without anyone realizing it existed. Debbie stated that everyone claims it was there when they arrived. She does know that \$120,000 worth of inventory was in a locked room downstairs. The inventory is now in visible sight, and the area has been cleaned out.

CBC has been brought on to ensure that we are completing book returns and other merchandise returns in a timely manner. They are also helping us come up with an inventory reduction strategy which will become critical if we decide to outsource. The intent is to bring inventory to a level where we have the flexibility to outsource or self-op. CBC has been tremendously helpful with this process.

Debbie and the RFP committee will be meeting with the Academic Affairs Counsel, Faculty Senate, ASI, and Administrative Council to update them on the process. Ten of the CSU campuses have outsourced their bookstore operations. Five of the campuses have outsourced with Barnes & Noble, and the other five have outsourced with Follett.

Board Discussion: There was some discussion amongst the Board members surrounding bookstore profits and loss, as well as the outsourcing process.

- Copy Machines: This operation is provided as a service to the campus; it is not an income generator. Sales have decrease over 25% from last year. Expense to Sales ratio is 256% YTD. The copier lease will not expire until January 2010. Debbie advised the Board that she will be reviewing sales from now until the end of the year. If sales continue to drop, a cost analysis will be performed to compare the need versus the cost of the lease agreements.

It may be more cost effective to terminate the leases, and pay the termination fee. At the current rate, losses will be close to \$40,000.

Board Discussion: There was some discussion as to whether Associated Students may be able to absorb some of the cost. Debbie agreed that it is definitely an area worth looking in to, and she will contact Associated Students regarding the matter. Ed asked if Debbie could come back next time with the cost of stepping out of the contract. Debbie said would probably need to pay the lease amount through the end of the term.

- C-Stores: Convenience stores (C-Stores) sales are up by 6%. An increase in expenses due to higher food costs has affected snack food sales. Bank and credit card fees, along with utilities expense, have also increased. Current year projected Net Loss will be close to \$24,000. The convenience stores (C-Stores), along with dining and catering, will be outsourced to Sodexho, effective July 1st.
- Dining/Catering

Effective July 1st, dining operations for Mountain View Plaza, Catering, and the Student Union will transition to Sodexho. Mountain View Plaza sales are up \$613,000. Current YTD sales are up 5.7%. Food costs are up 13% YTD. The largest increases have been in beverages, meat and dairy. The labor to sales ratio is currently at 42%; Sodexho model has a ratio at 37%. YTD operating expenses are up 15%, which is primarily due to increased allocation of expenses.

Student Union sales are up 6.5%. Food costs are up 11% YTD, with increased expenses in beverage, dairy and Starbucks baked and retail items. The labor to sales ratio is currently at 38%; Sodexho model has a ratio at 37%. YTD operating expenses are up 31%, which is a result of utilities not accrued last year, higher administrative expenses, increased bank/credit card fees, and equipment repairs.

Concessions have been negotiated out of the Sodexho contract. Athletics and Carol Dixon have decided to operate Concessions on their own.

Board Discussion: There was some discussion concerning the Starbucks contract. Debbie informed the Board that the Starbucks' license will remain in the Foundation's name due to new requirements Starbucks has for their licensees if the agreement were transferred to Sodexho (approximately \$200,000 in upgrades would be required).

- Business Office
Revenue includes administrative fees, investment income, and vending commissions. February revenue is \$153,000. The majority of the funds include the allocation of annual sponsorship funds from Coke, in the amount of \$40,000. Operating expenses are up 4% overall, which includes a 15% increase from last year in the Contractual Services. The goal of the Business Office is to break even. Net Loss for retail and business office is inclusive of all retail operations.

Preliminary results of the Business Interruption Claim indicate the University could receive as much as \$71,000. Dining would receive \$41,000, the Bookstore \$21,000, and C-Stores \$10,000.

- Financial Statements

Lisa Iannolo reviewed the Foundation Balance Sheet. She informed the Board that the Foundation has no outside debt, and no financed loans. The Foundation Building is owned free and clear. The Foundation has also helped the College of Extended Learning build the Yasuda Center. The Foundation Balance Sheet is the financial document that is presented to granting agencies when grant proposals are submitted.

Lisa reviewed the Dining Services repayment plan with the Board. Dining Services has lost money over the past seven years; overall losses have totaled \$1.7 million. The Bookstore was able to cover some of Dining Services' losses during its profitable years. Now that Dining Services will be transitioned to Sodexo, a formal repayment plan will need to be established. Current losses are approximately at \$500,000.

- Sponsored Programs

Debbie provided an update on the F&A Cost Rate Proposal that went to the Department of Health and Human Services. The proposal was received on December 31, 2007, and will be reviewed in the next couple of weeks. Further follow-up is scheduled for mid-April. A new rate should be in effect July 1, 2008.

Debbie advised the Board that there has been some discussion about co-locating the Sponsored Programs office. The committee is researching various options, which include the lease-purchase of modular units.

- Actuarial Study – Retiree Medical Benefits

Debbie reviewed the recent Actuarial Study conducted by Bickmore Risk Services. The study was based on 140 active employees and 22 retirees. As an auxiliary, the Foundation is required to maintain benefits comparable with the state. She informed the Board that one of the goals for the Foundation this year was to take a look at the benefits offered by through Foundation.

There is an unfunded liability of \$6.9 million that will need to be reflected on the Foundation's balance sheet. The \$6.9 million would apply if the Foundation elects a "pay as you go" scenario. This scenario would mean there is no pre-funding involved. Premiums would continue to be paid, along with the increases. The other option is to pre-fund.

If the Foundation elects to pre-fund, the liability on our financials would be \$4.2 million; however, the pre-fund option would require us to deposit \$903,000 a year, which equates to \$6,450 per employee. Pre-funding would require that the Foundation must hold the funds that are already there, any pre-funding we do in the future must be in an irrevocable trust. Therefore, a trust would need to be set up for that purpose.

Debbie noted that we currently have a retiree medical liability on our current financials that is based on a calculation in 1995, which reflects only 41 active employees and 6 retirees.

There are no options with CalPERS as to restructuring the plan. The only option is to contain our costs with a very tight cap on employer paid medical premiums. Debbie advised the committee that the Foundation is currently looking at other options if we leave CalPERS. Several CSU auxiliaries have already left CalPERS, and some of them offer retiree medical. However, to keep costs down they have increased the service requirement to 10 to 20 years or more.

The Foundation's HR Director, Brian Wittenberg, is working with our insurance broker in exploring other medical insurance options outside of CalPERS as well as new plan designs. CalPERS publishes new rates in the summer and requires all participants to notify them within 60-days if they will not renew for the 2009 calendar year. Debbie hopes to have options available to discuss at the June Board meeting. Rolland Vasin had taken a look at our retiree medical benefits, and looked at the actuarial study. Rowland advised that we can significantly reduce our liability if we make these kinds of changes.

Board Discussion: There was some discussion about the issue. Dorothy asked if the actuaries could look to see what the cost savings would be to the Foundation with plan design changes. Debbie said there will be careful review of the options. The goal is to come up with something that is of minimal impact to the Foundation employees. The overall goal is to get out of CalPERS; therefore, allowing some flexibility to address retiree medical, without reducing medical benefits to the employees.

Meeting adjourned at 6:29 p.m.