CAL POLY

CORPORATION

BOARD OF DIRECTORS ANNUAL MEETING
Friday, October 21, 2016, 8:30 a.m.
Corporation Administration Building #15
Conference Room #124

MINUTES

Fiscal Year 2016-17

Present: Phil Barlow *(left at 11:01 a.m.)*, Alexandra Bonestroo *(left at 10:50 a.m.)*, Paul Hoover, Keith Humphrey *(left at 11:01 a.m.)*, Kimi Ikeda, Nick Pettit *(left at 9:45 a.m.)*, Kim Shollenberger, Justin Rajah, Cyrus Ramezani *(left at 10:02 a.m.)*, Mary Verdin, Cynthia Villa

Absent: Steven Harding, Andy Thulin

Guest: Victor Brancart

Staff: Preston Allen, Joe Alves, Kelly Azel, Dan Banfield, Frank Cawley, Kacey Chun, Ellen Curtis, Lynnette Held, Jeff Heller, Starr Lee, Lorlie Leetham, Melissa Mullen, Fatma Spanton, Eumi Sprague, Mike Thornton

I. CALL TO ORDER AND INTRODUCTIONS

Chair Cindy Villa called the meeting to order at 8:30 a.m. and welcomed everyone to the meeting. She announced that Steve Harding would not be in attendance today and Andy Thulin is traveling and may or may not be able to join the meeting.

Cindy asked everyone in attendance to introduce themselves.

II. PUBLIC COMMENT

There were none.

III. MINUTES

A. Board Meeting Minutes – May 27, 2016

(M/S/P) (Verdin/Shollenberger- Humphrey abstained) that the Board accepts the May 27, 2016 minutes as presented.

None opposed.

Phil Barlow requested, that moving forward, the Board not schedule a meeting on the Friday before homecoming and parents weekend. He stated that there are too many other activities going on around campus.

Lorlie replied that the Corporation will take that into consideration when setting the Board meeting dates in the future.

IV. CHAIR REPORT

Cindy reported on the nominations and appointments to the Board.

Justin Rajah was nominated to the Board by President Armstrong to serve a one-year term ending June 30, 2017. Cindy read a brief biography on Justin.

Lexie Bonestroo was also nominated by President Armstrong to serve a second one year term, ending June 30, 2017.

Lexie Bonestroo, Kimi Ikeda and Nick Pettit have been appointed to the Corporation Audit Committee. Cyrus Ramezani has been appointed to the Investment Advisory Committee.

Lorlie Leetham announced that the Starbucks truck would be stopping by for everyone to see the truck and to sample a couple of drinks.

V. UPDATES

A. Executive Director's Report

University Update

Workforce Housing Development is an open market complex of 420 units and is scheduled for completion in early 2019. The project will be privately financed, constructed, operated and maintained. RFPs (request for proposals) were submitted, finalists selected and the university expects to make a selection in early November. Cal Poly employees will have priority in leasing these units. These units are not intended for students.

In January 2017, the University will be seeking the Chancellor's Office approval of a 2,600 bed student housing project. This project will be privately financed with a targeted completion date in the summer of 2020.

Student Housing South construction is on schedule.

Cal Poly Loft Student Housing in the Downtown Monterey Center complex is open and at full capacity. The ribbon cutting is today at 3:00 p.m.

Other projects on campus include: the Oppenheimer Equestrian Pavilion, Baseball Clubhouse, Crandall Gym seismic project, and a campus-wide utility project to replace all the buried hot water piping. This past summer, Facilities completed over 115 minor capital projects.

The draft strategic plan has been issued. A link to the strategic plan was emailed to the Board members on September 16. The plan includes six common goals for Cal Poly: nurture campus community, foster inclusion and diversity, enhance student success, enhance faculty and staff success, develop financial stability, address capital improvements and deferred maintenance.

Corporation Update

A Leadership Planning Retreat was held in August at Cambria Pines for the Senior Management Staff. Dale Magee from Catalyst Consulting worked with the team to further maximize their skills to be able to work together as a partnership and to build the team's cohesion and collective capacity. Next week, the team will begin working on a strategic plan that will better align with the broader university initiatives.

The Corporation had an incredibly busy summer with a record number of renovation and repair projects.

The Corporation held their Fall kickoff for all staff in September with Keynote Speaker Jean Steel. Vista Grande was demolished over the summer. Construction documents are currently going through the plan check process and the Corporation is optimistic to have construction bids by early winter.

Campus Dining added two food trucks, Starbucks and Central Coasters. Both trucks were put into operation this fall. A commissary was added to support the Starbucks truck and the Curbside Grill truck was re-wrapped. Campus Dining also added three new concepts in the Avenue: Picos, Zen Bowl and Bishop's Burgers.

Mustang Station (previously Ciao) had some renovations over the summer and now serves beer and wine. The Corporation is planning more physical renovations to this venue, including the area that leads out into the hall and the patio area of the University Union. The Corporation is collaborating with ASI on this project.

Myron's, a new restaurant, opened in Building 19 as a lunch venue. The restaurant seats 48 guests. Campus Dining will be holding A Taste of Myron's on Wednesday, October 27 from 3:00-5:00 p.m.

Campus Market and Sandwich Factory both received a facelift, product mix changes and had menu variations. The entire exterior of Building 19 was also painted.

Marketing and Communication launched"Text and Tell" a customer feedback program for Campus Dining. This program will allow for customer's immediate feedback and for customers to receive a response back in a short period of time. They also increased social media and twitter engagement for the University Store and Campus Dining by over 800% and created a Twitter presence for the Corporation.

As of last week, Information Technology completed the installation and activation of the EMV chip card readers at all dining venues and on all three food trucks.

Cal Poly Downtown construction completion has been pushed back a couple months, with a new target opening day of December 1. The Corporation is currently recruiting for a new Cal Poly Downtown Supervisor, with interviews scheduled for next week.

Reza Kamezpour, Academic Courseware Manager, will be presenting at the Annual National Association of College Stores meeting. The presentation will be focused on the evolving role of campus stores and strategies for the new era of course materials.

College Bookstore Consulting (CBC) completed their assessment this summer. The initial engagement included an assessment of financials and operations. A copy of the report was provided to the Corporation. CBC met with the Corporation and reviewed options for business models and are currently developing a Request for Proposal.

Sponsored Programs had a landmark year closing for the 2015-16 Fiscal Year, with contract and grant activity over $25.6 million. In the first quarter of this year they were 17% over the same quarter last year.

Conference and Event Planning accommodated 3,000 firefighters with housing and food in less than 24 hours and held a National Marketing conference for three days with more than 180 professionals. Conference and Event Planning is also seeing a growth in youth programs. There are four youth programs already planned for next summer.

Human Resources completed changing the ancillary insurance benefits over to Morris and Garritano Insurance. This change was effective September 1, 2016, saving the Corporation approximately $35,000 per year.

Lorlie announced that Jeff Heller is retiring at the end of November 2016. His retirement leaves a vacancy in the Facilities Operations and Capital Project Management position at a critical time. The Corporation is planning to recruit for this position. In the meantime, Mike Thornton will be in charge of major capital projects. She thanked Jeff for all of his work in helping navigate the complexity of working with University Facilities, architects, and designers on the Vista Grande project, the Culinary Support Center and all the work he has done over the past couple of years.

Jeff addressed the Board and stated that he has been very fortunate to have worked with some of the hardest working people in the Corporation and he is proud to have been involved in the planning of all the projects and Capital projects going on with the Corporation and to have been a part of the planning of Poly Canyon Village. He plans to spend more time with his grandkids in New York.

Cindy Villa thanked Jeff for all his contributions while here on campus.

This next year, the Corporation will be working on team development and strategic planning, major capital projects, the campus dining management services RFP, the University Store Business RFP and research growth and the need to ensure our capacity supports the research growth.

VI. BUSINESS

A. Employee Medical Benefit Program Contribution Rate for 2017 - Resolution 17-01

M/S/P (Humphrey/Bonestroo) that the Board approve the Employee Medical Benefit Program Contribution Rate for 2017-Resolution 17-01

Kacey reported that the Corporation contracts with CalPERS to provide health insurance coverage for Corporation employees. The Corporation's goal, since we have some of the lowest paid employees on campus, is to try and fully cover 100% of one PPO and an HMO plan for employees whenever it is fiscally viable for the Corporation. The Corporation actually realized a savings of 3.2% this year. This is due to CalPERS dropping one of their HMOs, Blue Shield NetValue, and replacing it with United Health Care HMO.

There is no change in the "cash-in-lieu of" amount for 2017.

Paul Hoover strongly recommends that, in the future, the Corporation's contribution should be anchored to a tangible dollar amount and advised caution in how the Corporation presents the medical benefits to the employees.

Dan Banfield presented a Campus Dining cash flow projections spreadsheet to the Board to show what impact the next three business items will have on Campus Dining's cash flow. The analysis also shows that the Corporation has the financial capacity to take on the next three business items.

A copy of the projections spreadsheet was also handed out to the Board members.

B. Building 19 Electrical Upgrade

M/S/P (Shollenberger/Humphrey) that the Board approve the Building 19 Electrical Upgrade in the amount of $200,000.

Jeff Heller reported that Building 19 is fifty-five years old, and these electrical upgrades are necessary. On one of the busiest and hottest days this past September, Building 19's electrical safety device overheated and tripped, which resulted in a momentary power outage to the building. Fortunately, the backup generator automatically activated and supported the building's electrical needs for the next four hours. However, this event exposed a critical weakness in the electrical infrastructure. In order to avoid similar events in the future, major electrical components need to be replaced. Fortunately, many of the required equipment upgrades will be usable when Building 19 is renovated or replaced.

These upgrades are considered a high priority by the Corporation as well as the Facilities Services Department.

The Corporation is asking for the approval of $200,000 for the electrical upgrade. The funds for this work will come from existing Campus Dining Facility Reserves.

C. Vista Grande Financing - Resolution 17-02

M/S/P (Ramezani/Rajah) that the Board approve the Vista Grande Financing, Resolution 17-02 and authorize the Executive Director or her Designee(s) to negotiate and execute all documents necessary to facilitate the financing of the Vista Grande Building.

Dan reported that in October 2014 the Board had approved expenditures not to exceed $1.5 million to engage the services of an architectural firm to assist in designing and developing programming and construction documents to replace Vista Grande and relocate Campus Dining offices and other space currently housed in Building 19. The cost estimates by the DLR Group are estimated at $30.6 million. In January of this year the board approved expenditures of $29.1 million with a 10% variance.

Based on the analysis of Campus Dining's future cash flow and current cost of external financing, management believes that financing the development and construction of Vista Grande is a more effective method to carry out the goals and conserve capital for other Campus Dining initiatives and projects.

Bond financing will be submitted for approval to the CSU at their January 2017 meeting. Resolution 17-02 is a requirement of the CSU and provides for a loan of proceeds from CSU Systemwide Revenue Bonds to the Corporation in the amount not to exceed $26.5 million.

The loan agreement is meant to consolidate the future loan with the existing loan the Corporation has for the construction of the Technology Park. In addition to the resolution, the Corporation is asking the Board's approval to authorize the execution of all documents related to financing of this loan.

D. Campus Dining Management Contract

M/S/P (Humphrey/Hoover- Shollenberger Opposed) that the Board authorize the Executive Director or her Designee(s) to negotiate and execute all documents necessary to contract for management services.

Lorlie gave a background on how it was decided to issue a Request for Proposal (RFP) for Campus Dining Management Services.

She reported that discussions took place on ways to retain operations to generate revenue, promote financial stability, address deferred maintenance, the growth of the campus under the master plan and the alignment the Corporation needs to do to grow the university. The President's 2022 Vision, the launch of Campus Dining's master plan, and the plans for residential growth on campus have presented a significant transformational opportunity.
The goal in having a management company is to build on the Campus Dining experience by increasing employee exposure to other culinary and multi-culinary food service experts. One way to do this is to leverage the expertise through a management services contract.

Lorlie commented that she and Cindy Villa visited and toured the University of Arizona (U of A) and Arizona State University dining facilities in August. Both universities have utilized management services successfully. They were able to elevate their dining program through assessment of operations, implementation of new methods and development of their staff who otherwise might not have had the opportunity to learn and gain these experiences.

Corporation Management issued an RFP inviting companies to submit proposals. The RFP resulted in two companies demonstrating interest.

A cross functional RFP committee was put together, which consists of students, athletics, and members of the university to review assess the proposals.

It is anticipated that contract services will cost between $500,000 and $750,000 per year. The contract is expected to cover an initial three-year term, with the possibility of two one-year extensions. The potential for program growth and efficiencies is expected to partially offset this cost. Vacant Campus Dining management positions have been left open or are currently filled with staff in interim roles to offset the costs of an outside management company.

Keith commented that he was part of a group at U of A six years ago that had a dining program with a positive image, but wanted to push the program further and brought in a managing company. U of A wanted to be make sure that food trends and student needs were being met. The U of A campus benefited greatly and the changes were received incredibly well by students and the campus community. The students did not see a major change in costs and in some areas costs declined.

Kim Shollenberger asked why doesn't the Corporation figure out how to pay for the costs before engaging in a management company.

Lorlie replied that the Corporation has the money to pay for this. The revenues projected were not adjusted for this cost and Campus Dining is not looking to increase prices. The total cost of bringing in a managing company will be determined on the optional services they are proposing, variances in proposals and through negotiations.

There was some discussion regarding the benefits Campus Dining could gain from bringing in a managing company, what will determine the costs for a managing company and how Campus Dining will cover the costs.

Phil asked who is currently the Campus Dining Director, will this position remain open and who will be the direct contact for the managing company. Lorlie replied that Starr Lee is currently serving as the interim Director. The RFP specifically requests an on-site Dining Director therefore the Director position will remain unfilled. Lorlie stated that she will be the direct contact for the managing company.

Kim Shollenberger asked Mike Thornton what his thoughts were on bringing in a managing company.

Mike replied that he feels it would be a great benefit to the dining program. Campus Dining will get insight by bringing in a global perspective. These Corporations bring in international chefs that Campus Dining chefs will greatly benefit from and will be able to create menus and concepts that will be original. These managing companies also have resources that the Corporation doesn't to research and figure out who the next generation of customers will be. He sees a lot of skills to be gained by employees in Campus Dining.

Lexie Bonestroo commented that she sees "Learn by Doing" opportunities for students, especially nutrition majors.

The Board took a break at 10:02 a.m. reconvened at 10:20 a.m.

E. University Store Outside Contracting

M/S/P (Bonestroo/Humphrey - Shollenberger opposed) that the Board approve the University Store Outside Contracting

Lorlie reported that the Corporation has engaged the services of Tom Byrne with College Bookstore Consulting (CBC) and he has completed an assessment of the University Store. CBC and Tom are renowned in the industry for the work they do. CBC is completely neutral and does not represent a company or a certain business model. CBC looks at the current model and how a store might leverage new models that are available to generate revenue for the campus, maximize space and provide the best options for students.

After having conversations with campus leadership about what they would like to see with respect to the University Store, it was determined that CPC would issue an RFP to look at the University Store business models and what the market might have to operate as either a hybrid, full outsource or an emerging business model. This business item is asking the Board to authorize the executive director to negotiate and execute all documents necessary to contracting and outsourcing some or all of the University Store operations.

The Corporation formed a cross functional group committee and did some outreach on campus to ask students, faculty and others about what they think of the current bookstore operations and what their concerns would be if the Corporation were to look at a different operating model. The Corporation is putting that feedback into the design of the RFP.

Lorlie stated that this is not an item that will have a cost to the university or the store. Instead, CPC is looking at a revenue generation opportunity arrangement. There is, however, a potential impact on staffing. The actual impact would be determined depending on the model proposed. Some models can change staffing and/or how staff is employed and with other models, employees may not be affected.

Kim Shollenberger commented that the online textbook full disclosure was implemented to give the students' options and the Corporation and Board understood that textbook sales would take a hit. She asked if the Corporation is not satisfied with that model now. Lorlie replied that the University Store's goal is to not stay status quo, but to always be looking at better ways to operate the store.

Kim commented what would be defined as better; is it better, making more money selling textbooks or is it better the cost effective way.
Lorlie replied it's more effective to better utilize the space, best service to the students, affordability, as well as, the financial return to the university. CBC completed an assessment and financial analysis of the current operations. Part of the assessment was to determine the current financial analysis of the operations to allow CBC to understand the return and benefits that are currently being provided. This will help build the RFP to determine what CPC needs to have for a comparison in how the operations are doing compared to the industry and to set the stage for the next step in the RFP process.

Cindy Villa commented that it's her understanding that the RFP will be structured with different options, which will allow CPC to outsource all or none of the operation, depending on how it compares and CPC evaluates the proposals.

Lorie reported that she and Cindy Villa visited three campuses: University of Arizona, a fully self operated store that has a lot of space to implement creative services that are outside the traditional college bookstore; Arizona State, which was self-operated but is now outsourced and who has added a store on the perimeter of campus; and UC Davis, which has added the Amazon package and delivery service to their self-operated store.

F. Cal Poly Downtown Construction Costs

M/S/P (Humphrey/Bonetsroo) that the Board approve the Cal Poly Downtown Construction Costs

Frank reported that the recommendation before the Board is to approve an additional $155,000 for the completion of the Cal Poly Downtown Store. The initial estimates for the cost of new fixtures were low. In order for the new store to express the Cal Poly Brand in a dynamic fashion, additional customization of fixtures, shelving and finishes are needed.

The total cost of $280,000 is in line with the square foot estimates for the National Association of College Stores and National Retailers Association for a normal retail outlet. The difference between the original amount and the current amount is $155,000. This amount would be depreciated over 10 years, giving a new depreciation amount of $28,000 vs. $12,500. This amount is expected to have little effect on estimated Income from Operations.

VII. REPORTS

A. Audit Committee Report

Cyrus Ramezani reported that the Audit Committee met on September 14 with the auditors and Corporation staff. The final audited reports were presented and the audit committee accepted the June 30, 2016 Audited Financial Statements and Federal Awards and Schedules as presented.

B. Annual Financial Report, June 30, 2016 and Quarterly Report, September 30, 2016

Dan reported on the June 30, 2016 Financial Report.

Income from core operations was $1.7 million above budget and the increase was driven by first time freshman being 6.5% above budget. The University Store continues to see an increase in courseware rentals, which are up 49% over the previous year. SLO days (previously SOAR) had a big year. Investment market losses totaled $2.4 million. This loss was not exclusive to Cal Poly. Higher education across the country had a challenging year. In fact, Cal Poly did not fare as poorly as other institutions. Sponsored Program activity had a phenomenal year as far as increasing expenditure activity and grant contract activity.

The significant increase in revenue and payroll expenses is primarily due to the restructuring of the Corporations General Administration operations: The Marketing and Communications department, certain IT support functions, and facility support were added under the General Admininstration umbrella. The fluctuation of revenues from budget is primarily a result of the services General Administration performs for outside entities. Some of the services are based on transaction volume.

Operating expenses came in as expected.

General Investment Fund income was slightly below budget from last year, primarily the result of special one-time dividends that CPC received in the 2014-15 Fiscal Year and had anticipated receiving similar dividend activity for 2015-16 Fiscal Year but it did not materialize.

Expenses came in as expected. Operating losses were significantly less than the previous year.

Campus Dining had an increase in revenue primarily due to first time Freshman being 6.5% over budget. In 2015-16 fiscal year, Campus Dining restructured the meal plan from a traditional plan to a total declining balance. Despite that change, Campus Dining's cost of sale percentage came in at 35%. Payroll and operating expenses came in slightly under budget primarily due to employee vacancies that were budgeted for but not filled and operating expenses postponed or delayed to a future period.

University Store revenues are declining steadily, mostly a result of a decrease in courseware sales, however, the store is seeing an increase in textbook rentals. Sales are down, but gross margins are up over 1%. Payroll and operating expenses were slightly under budget, primarily the result of vacant positions not being filled, expenditures and purchasing of equipment being postponed.

Conference and Event Planning's significant increase in revenues over budget was primarily the result of SLO days. This was the first year SLO days was required for incoming freshman and attendance exceed what was anticipated. The decrease in payroll from the budget is a result of personnel vacant positions not being filled. Operating expense came in slightly over budget primarily a result of the housing expense for SLO Days.

Plant Operation's decrease in revenues from last year to this year was due to last year Corporation sold a unit at Bella Montana and this year the Corporation did not budget any sales.

Sponsored Programs Administration project expenditures are 20% over prior year. Payroll and operating expenses are primarily due to position vacancies not filled. Any increase over last year and the budget is the result of the increase of project expenditures.

Total assets stayed close from last year to this year. The change in liabilities, a decrease of $3 million, is primarily the result of a decrease in deposits the Corporation held on behalf of others.

Dan Reported on the September 30 , 2016 Quarterly Report.

Income from core operations is up $1.2 million and the investment market had returns of $1.6 million.

First-time freshman head count is 4.4% below what was budgeted. Campus Dining will see that impact in revenues over the next few quarters.

At September 30, total assets were up $18.7 million and liabilities were up $17.1 million.

C. Annual Investment Report, June 30, 2016 and Quarterly Report, September 30, 2016

Joe reported that at the Investment Advisory Committee meeting this past Wednesday the committee decided to not make any changes and continue to track and evaluate performance. The committee also decided to continue to work with the Cal Poly Foundation on the Investment Advisory review.

Joe reported on the Annual and Quarterly Investment Reports.

During the first six months of the 2015-16 Fiscal Year investments suffered significant losses. These losses were contrasted by significant market performance calendar year-to-date. Domestic Small Cap is up 11.5% and REITS is up 11.8%. An allocation shift from commodities to REITS contributed to the positive returns. This shift was reported to the Board at its January meeting and was the result of discussions by the Investment Advisory Committee.

Money Market was valued at $19.8 million at June 30 and $19.3 million at September 30. In the 2015-16 Fiscal Year, the Corporation had $4.8 million in CDs mature and the money was transferred to the Low Duration Fund. One CD matured in the 2016-17 Fiscal Year for $2.5 million; and the money was transferred to the Low Duration Fund. In the 2016-17 Fiscal Year, $2 million was transferred from the operating account to the money market account.

Fixed Income Mutual Funds had positive returns for 2015-16 and a great start to 2016-17. Short term has already earned more in the first quarter of this fiscal year than all of last year. In 2015-16 fiscal year, $5 million was transferred to Short Term and $6 million transferred to Low Duration.

The Corporate Investment Pool was valued at $26.7 million at June 30, 2016 and $27.8 at September 30, 2016. The pool had a positive return for the first quarter of this fiscal year, beating the benchmark by 0.6%.

The Student Investment Management Portfolio group significantly outperformed the benchmark of the S&P 500 by 4.6% at June 30, 3016 and had a positive return of 0.7% at September 30, 2016.

OPEB & VEBA ended the 2015-16 Fiscal Year even, but had positive returns for the first quarter of 2016-17. The annual required contribution to VEBA of $1.39 million was made from operating cash. CPC had a cash withdrawal in July from OPEB to replenish the operating cash. Both pools were 100% funded at July 1, 2016.

The Endowment Pool was valued at $2 million at June 30, 2016 and $2.1 million at September 30, 2016. It underperformed in the 2015-16 Fiscal year, but outperformed its benchmark in the first quarter of the this Fiscal Year. These funds are held on behalf of other entities that have a relationship with the Corporation or University. The Foundation for the Performing Art Center withdrew their funds at the end of June. The Corporation currently manages eight endowments.

Grant and Annuity charitable gift annuities had one new contract in the amount of $10,000 during the 2015-16 Fiscal Year. Twelve contracts paid out totaling $90,286 most of which benefited the Aerospace Engineering Department and Humanities collection in the Kennedy Library.

VIII. ANNOUNCEMENTS

Lorlie announced that there are still tickets available for Corporation Staff day at the Cal Poly football game on Saturday if anyone would like to attend.

IX. ADJOURNMENT

No further matters appearing, the meeting was adjourned at 11:14 a.m.

Respectfully submitted,

Ann Roy

Ann Roy, Recording Secretary