



BOARD OF DIRECTORS ANNUAL MEETING #1
Friday, October 30, 2020 8:30 a.m.

MINUTES
Fiscal Year 2020-21

Present: Phil Barlow, Cole Dorris, Sean Hurley, Keith Humphrey (*arrived at 9:00 a.m. & left at 10:52 a.m.*), Geri LaChance, Patrick Mullen, Alan Faz, Renee Pera, Steven Rein, Andy Thulin, Cynthia Villa, Dean Wendt

Absent: Cara Crye

Guest: President Jeffrey Armstrong

Staff: Joe Alves, David Bains, Dan Banfield, Jodi Block, Andrea Burns, Ellen Curtis, Jess Dozier, Jude Fledderman, Carly Jones, Angie Kraetsch, Aaron Lambert, Will Marchese, Matt Ryan, Penny Sandman, Fatma Spanton, Mike Thornton, Cody VanDorn, Jennifer Wharton, Dru Zachmeyer

I. CALL TO ORDER

Chair Cynthia Villa called the meeting to order at 8:32 a.m. and welcomed everyone in attendance.

She announced that Ann Roy will take a verbal roll call of all Board members.

After roll call, Villa asked that it to be noted in the minutes, that through roll call, all participating members in attendance have demonstrated their ability to effectively communicate and engage in all matters present before the Board today through the Zoom virtual meeting platform.

Villa announced that Cara Crye is absent today, Keith Humphrey will be arriving and stated that President Armstrong will be in attendance to present a university update.

Villa welcomed new Board members, Alan Faz, Geri LaChance and Renee Pera, and read biographies on all three. She introduced Cody VanDorn, the newly named chief executive officer for the Corporation and asked him to introduce his direct reports.

II. PUBLIC COMMENT

There was no public comment.

III. MINUTES

A. Board Meeting Minutes – June 12, 2020

(M/S/P) (Thulin/Mullen) That the board accepts the June 12, 2020 minutes as presented.

None opposed

IV. CHAIR REPORT

President Armstrong thanked everyone for being in attendance today. He thanked the staff and faculty for all they do and have done to support the university during such an unprecedented year.

There have been four imminent challenges the university has faced this year: Wildfire devastation to Swanton Ranch, greater awareness of discrimination and violence against people of color, the COVID-19 pandemic and the related economic and financial impacts. Cal Poly Cares the university received has helped support students in need. Armstrong stated that he believes there will be more support available in January.

In partnership with an outside firm, the university has conducted sixteen-thousand COVID tests since July 8.

There are five hundred sections of in-person courses scheduled for Winter quarter. Spring quarter will hopefully have more.

Despite the COVID-19 situation, admission and enrollment data are very strong. The university received 63,000 undergraduate applications during fall 2020, which is down 3% from 2019, but greater than any year since 2018. The applicant pool is increasingly diverse with Latinos making up 24.7% of the applications.

The continued success of the Cal Poly Opportunity Fee meant that Cal Poly welcomed 389 incoming Cal Poly Scholar freshman and transfer students this fall. Cal Poly has just over 650 Cal Poly Scholars supported by the Cal Poly Opportunity Fee.

The Technology Park's 30,000 square foot expansion is moving forward. This would not have been possible without the support of the Corporation and this Board. This expansion will enable the kinds of synergy and collaboration that the existing park has led to, but with more industry partners.

Armstrong noted that with the Vista Grande Dining Complex project, Building 19 renovation and the investment in the Frost Center, the Corporation has provided \$75 million in investments to campus. Armstrong also stated that he is profoundly grateful to everyone who is working hard and doing the right things to address the challenges that has been put before us. The Corporation has done most of the hard work and made many of the unpleasant sacrifices. He thanked the Corporation for their unwavering commitment to Cal Poly and the students.

Cynthia Villa presented an update on the university budget and the challenges for the FY 2020-21. Some of the challenges include the projected operating budget deficit of \$35.2 million, majority of classes are virtual, the reduction in campus population and housing residents, cancellation of athletic, Conference and Event Planning and PAC events and the cost associated with the COVID-19 pandemic.

Villa stated that some of the ways the university is taking action to mitigate the deficit is by continuing the travel restrictions and hiring chill, in October an Early Exit Program was rolled out, implementing centralized benefits, strategically used one-time funds and reserves, recapture of 50% of unit carryforwards, engaging optimization initiatives in marketing and technologies and university wide budget reductions.

Enterprise operations such as University Housing, Transportation and Parking Services and Extended Education are self-support entities and do not receive state funding, and collectively have a \$21.9 million deficit. The bulk of that belonging to University Housing.

Auxiliaries are separate legal entities (Corporation, Cal Poly Foundation, Associated Students Incorporated) that help support the universities mission. These entities are almost breaking even. However, that may change due to impacts the pandemic has had on Campus Dining and the university.

Villa walked the board through the university timeline that started in early September when budget reduction targets were established and communicated to division vice presidents and the provost through the expected completion in November when the adjusted budgets are to be recorded.

V. CHIEF EXECUTIVE OFFICER REPORT

Cody VanDorn thanked staff, faculty and students for all of their efforts. He also thanked the board and everyone for their support during the CEO Leadership Transition. He has spent the time listening and learning from teams, faculty and leadership.

Campus Dining's mobile ordering platform, Grubhub, is now responsible for 95% of all orders. Vista Grande opened this fall and has enhanced the student experience.

The Corporation partnered with the university and ASI to create new outdoor spaces in order to an alternative for students to safely hangout and study outside the classroom and their residence. These spaces have encouraged and given students a place outside to utilize, which is especially important with isolation happening.

VanDorn shared an update on Swanton Pacific Ranch since the August CZU Lightning Complex Fire that burned down a large portion of the ranch, including housing. The plan is to rebuild the ranch, but right now staff are triaging and figuring out temporary housing.

VanDorn shared his short-term goals. The Corporation has furloughed employees and adjusted benefits. We will continue to mitigate losses and position ourself well to rebound through rebranding, repositioning and financials. The Corporation has been focused on the student experience by meeting and connecting with students. Students will experience more challenges during the Winter quarter since they cannot occupy outdoor spaces like before. Leadership has a list of solutions to enhance the student experience. The long term vision will focus on being prepared when we can go back to normal operations.

VI. UPDATES

Will Marchese gave an update on the following Capital Projects.

The Vista Grande Dining Complex project was officially signed off on Aug. 19 with a temporary occupancy which allowed the Corporation to operate. The Corporation does not have the final completion documentation and are working through the punch list and fire safety. The originally forecasted budget was \$36 million and the final current cost is \$43.3 million, a \$7 million variance. This variance is largely due to errors and omissions that delayed the project. There are unsettled claims that are in ongoing negotiations with Pro-West to reconcile final costs. The Corporation is expecting to recover between \$1 million and \$5 million. These negotiations will take time to work through since it is hard to quantify how an omission caused a delay.

The Building 19 renovation project has a \$27.8 million budget with a 5% margin for error. The project is expected to begin mid-January, early-February, with an anticipating opening in Fall 2022.

The retail space in the yak?itYutYu residential community, formerly known as Grand Avenue Market, had some collateral damages, including code issues and structural deficiencies that has caused the cost to escalate. The Corporation is redirecting this space into a coffee shop, social/study place that will serve the PAC and the campus community. The Corporation is currently, working with two brands: Scout Coffee Co. and Starbucks. Scout Coffee Co. is the avenue management is currently pursuing. This direction was an outcome from focus groups and talking to students and the campus community. The Corporation anticipates finalizing negotiations by the end of the year, going out for bid in January 2021, with construction to start in July and a completed project by fall 2021. There is still \$1 million in the budget to complete and deliver this project.

The fire at Swanton Pacific Ranch was a devastating and extremely complex loss with a long road to recovery. Marchese stated that he toured the ranch on Wednesday, Oct. 28 with Andy Thulin. The Corporation and CAFES are planning for architects to visit the ranch and evaluate what was lost and how the ranch can rebuild. This is a devastating loss but also an opportunity to revision the ranch and rebuild in a way that will allow CAFES opportunities to do unprecedented things.

Board took a break at 10:05 a.m. and reconvened at 10:12 a.m.

VII. BUSINESS

A. Approve the Revised 2020-21 Operating Budgets for Specific Core Operations of Cal Poly Corporation M/S/P (Humphrey/Pera) That the board approve the revise 2020-21 operating budgets for specific core operations of Cal Poly Corporation.

Dan Banfield reported that the Budget and Finance Advisory Committee met on Wednesday, Oct. 28. Agenda items at the meeting included review of the quarterly and annual financial information, and a review of the revised budgets being presented to the board today for approval.

Banfield reported that at the annual Board of Directors meeting in June the budgets that were presented and approved were based on the best information available at that time. It was predicted at that time, that there would be more students on campus and that more in person classes would be offered during the fall 2020 quarter. Unfortunately, those predictions did not materialize and has had a major impact on the Corporation's commercial activities. Core operations are expected to close the year with a \$3.9 million loss to reserves.

In response to the substantial impact, the Corporation continues to look for ways to reduce expenditures related to core operations. Furloughs were implemented in the fourth quarter of the 2019-20 fiscal year and continue across all departments. Discretionary expenditures have been reduced, postponed or cancelled altogether. Corporation continues to look at other areas to mitigate costs including already implemented employee medical benefits, looking for ways to reduce payroll costs and researching changes to its pension benefits.

Pat Mullen commented that when the Budget and Finance Advisory committee met this past Wednesday the committee thoroughly went over all the details of the revised budgets being presented today and asked questions of the impacts and reasons for making the revisions. The committee unanimously voted to make the recommendation that the Board approve the revised budgets as presented.

B. Employee Medical Benefit Program Contribution Rate for 2021-Resolution 21-01 (M/S/P) (Mullen/Rein) That the board approve resolution 21-01 to change the Corporation's employer contribution rate for the CalPERS employee medical insurance program to be effective January 1, 2021.

Jennifer Wharton reported that the Corporation currently has approximately 230 benefited employees; of those employees, 200 have elected medical insurance.

The CSU offers the same six medical insurance plans as 2020, but their costs are higher. This is due to the Corporation being a public agency with plan premiums that are based on the Southern California region.

The total cost for Corporation health insurance (medical, dental and vision) for 230 benefited employees is \$2.9 million per year. Corporation-paid medical insurance provides a significant benefit to its employees' total compensation package, paying from \$4 to \$10 per hour for full-time employees.

C. Publicly Available Pay Schedule for CalPERS (M/S/P) (Mullen/Dorris) That the board approve the publicly available pay schedule for Corporation employees

Wharton reported that CalPERS requires that the publicly available pay schedule must be approved by the board. The schedule must include every position with accompanying pay range, time base and must be accessible by the public with an effective date.

The last time the Board approved the publicly available pay schedule was at the October 2019 Board of Directors meeting. No major changes have been made to the schedule. No general salary increase was given in July.

Wharton stated that to ensure the Corporation's pay schedule meets all appropriate requirements CPC contracts with a compensation consultant who has been selected by the Auxiliary Organization Association (AOA) across the CSU.

VIII. REPORTS

A. Audit Committee

Sean Hurley reported that an external audit is conducted each year by board policy and California Education code.

The external auditors from Glenn Burdette met on September 15 and presented their report to the Audit Committee. The auditors issued a non-qualified report, which expresses that the information reported within the financial statements fairly presents the financial position of the Corporation as of June 30, 2020. The Audit Committee unanimously accepted the audited financials.

Banfield commented that there were no written findings and thanked the Audit Committee and the Corporation staff for their diligence throughout this process.

B. Investment Advisory Committee

Joe Alves stated that the Investment Advisory Committee met this past Wednesday to discuss and review the Corporation's investment performance and allocation.

Alves reported on the following on the annual June 30, 2020 investment reports.

The Money Market fund was valued at \$19.6 million and had an average interest rate of 1.08%. Short-term funds outperformed its benchmark and low-duration fund underperformed its benchmark. The Corporate Pool long-term investments were valued at \$48.7 million and saw an underperformance to benchmark.

SIMP is currently valued at \$741,000 and had an underperformance to the S&P benchmark due to the large cash position they have of \$355,000. Alves noted the educational purpose of this fund is for students to receive a fantastic opportunity to work with real funds in a dynamic environment.

OPEB underperformed slightly by (0.2%) and has a larger exposure to fixed income 57/43. VEBA had larger underperformance due to cash flow timing. Both pools are currently 100% funded.

Endowment pool is valued at \$2.3 million and had a slight underperformance. These funds are held on behalf of other entities that have a relationship with CPC or the university. CPC currently has nine endowments under management

Grant & Annuity charitable gift annuities provides lifetime income stream to the donor where Corporation keeps the remainder upon contract maturity. The underperformance of these annuities has lot to do with the allocation required by the Department of Insurance. The Corporation currently has forty-nine contracts. Two contracts have run dry with an expected liability of \$14,000

Alves reported the following on the September 30, 2020 investment report:

Money Market was at \$22.6 million and had an average interest rate of 0.15%. Both fixed income mutual funds and short-to-mid-term funds outperformed their benchmarks. Corporate pool long-term investments were valued at \$51.1 million and outperformed its benchmark.

SIMP is currently valued at \$761,000 and had an underperformance to the S&P benchmark due to the large cash position they have and ended September with \$687,000 in cash.

OPEB was valued at \$10.9 million and outperformed its benchmark by 0.6%. VEBA was valued at \$26.5 million. The difference in returns is due to cash flow timing. Both pools are currently 100% funded.

Endowment pool was valued at \$2.4 million and had a slight outperformance.

Grant & Annuity charitable gift annuities saw an underperformance. Total contracts remains at 49.

C. Budget and Finance Advisory Committee

Dan Banfield reported on the annual June 30, 2020 and the quarterly Sept. 30, 2020 financial reports.

The Corporation's total net position decreased by approximately \$3.6 million during the Fiscal Year ending June 30, 2020. The decrease is the result of a \$656,000 decrease in the net position to the core business operations combined with a \$2.9 million decrease in the net position of university programs.

At June 30, income from core operations was \$2.3 million and below the budget of \$5.6 million. The decrease is primarily the result of the economic impact of the COVID-19 pandemic.

The General Investment Fund earned \$2.7 million in interest and dividends. The returns were offset by market value losses of approximately \$1.2 million for the same period, driven by the market response to the COVID-19 pandemic. First-year student head count was slightly over budget and Sponsored Programs activity totaled \$24.2 million which is a decrease of 6% from prior year.

The University Store contract with Follett is in its third year of a seven-year contract. Income from operations of \$188,000 includes commissions earned less expenses. Follett advised the Corporation of their inability to pay the guaranteed minimum commission for the 2019-20 Fiscal Year due to the COVID-19 pandemic. Follett and the Corporation agreed the guaranteed minimum commission would be paid through March 2020, and commissions for April through June 2020 would be based on actual sales.

Total assets at September 30 were up \$13.6 million, total liabilities were up \$13.5 million and net position was up \$193,000. The increase is the result of a \$350,000 increase in the net position of core business results previously mentioned combined with a \$157,000 decrease in the net position of university programs.

IX. ANNOUNCEMENTS

Villa announced that the next scheduled board meeting is Feb. 5, 2021 at 8:30 a.m.

X. CLOSED SESSION

There was none.

XI. ADJOURNMENT

No further matters appearing, the meeting was adjourned at 11:30 a.m.

Respectfully submitted,

Ann Roy

Ann Roy, Recording Secretary