University Enterprises, Inc.
Budget & Finance Committee Meeting
April 30, 2015
Conference Room
1:30 to 3:30 p.m.

Members Present:  Mike Lee - Chair
Lisa Bates
Larry Cook
Randy Sater

Staff Present:  Jim Reinhart, Executive Director
Craig Barth, Chief Financial Officer
Arlette Barnard, Recording Secretary

The Budget & Finance Committee meeting was called to order by Mike Lee at 1:31 p.m. Craig Barth presented UEI’s 2014-2015 Operating Budget, Capital Outlay, and Schedule of Unrestricted Net Asset Reserves.

Barth stated that UEI is proposing a ($262,200) budget deficit for 2015-16 against a revised forecasted deficit of ($885,600) for 2014-15 and a budgeted deficit of ($669,300) for 2014-15.

Significant financial changes:

- As a result of the recent implementation of GASB 68, all government entities are required to disclose their entire pension liability on the balance sheet effective with the 2014-15 fiscal year.
- UEI is moving forward with the refinancing of its Series 2005A tax-exempt bonds.
- The 2015-16 operating budget includes an assumption for a 3% across-the-board salary increase.
- The Folsom Hall Café is being introduced as a new dining venue.
- Sacramento State has agreed to lease the third floor of Folsom Hall to California Northstate University College of Health Sciences. The effect on UEI will be reflected in nominal increases in building operation expenses.

Revenue

- UEI is budgeting $29,733,700 in total revenue against $27,630,400 forecast for 2014-15, an increase of $2,103,300 (7.7%). Significant changes between years include the following:

Increases

- Total Dining Commons revenue is budgeted to rise $194,200 over the prior year. This is the result of a combination of a 4% increase in the meal plan fee and additional students signed up for the plan (1,695 total).
- Courtyard Market revenue is projected to increase by $118,800, largely a result of the same two factors.
- University Union dining operations are projected to increase by $235,000, most notably at Good Eats!, Epicure Restaurant, Java City-the Buzz, and Java City-Eco Grounds.
- Starbucks sales revenue is expecting a rise of $89,300 on daily estimated sales forecasts of $6,050 along with the anticipation of increased traffic.
The opening of Baja Fresh in the Riverfront Center is anticipated to yield $536,400 in sales revenue versus a nominal amount in the current year.

The new Folsom Hall Café is budgeting $58,800 in total revenue.

The Catering department is projecting a $100,200 (8.1%) increase in overall activity.

Total California Intern Network fee revenue is projected to rise by approximately $134,900 owing to increases ranging from 10 – 20% on state, nonprofit, private and local government contract activity.

Sponsored Programs fee revenue is budgeting a $51,000 increase.

Expanded activity at the Julia Morgan House is expected to generate an additional $157,000 in rental fees.

Modoc Hall will enjoy a full year’s occupancy by the College of Continuing Education in 2015-16, supplanting income lost from the departure of the US Geological Survey (USGS) and increasing revenue by a projected $333,700.

Upper Eastside Lofts (UEL) management company EdR Collegiate Housing was instructed to raise student occupancy projections to 97.6% of capacity, thus increasing total projected lease income by $99,000.

UEI only budgets for interest and dividend income, not realized and unrealized investment gains and losses. Through December 2014, ($394,500) in such losses has been recorded. None is forecast for 2015-16, per UEI policy.

**Decreases**

- The Bookstore commission fee guarantee from Follett will be reduced by $103,000 in 2015-16 due to a contractual annual decrease equivalent to 7.5% of the previous year’s fee.

**Expenses**

- UEI is budgeting $29,995,900 in total expenses against $28,516,000 forecast for 2014-15, an increase of $1,479,900 (5.2%). Significant changes between years include the following (amounts are exclusive of corporate overhead allocations):

**Increases**

- Total University Union dining operations are projecting a $194,300 increase in total expenses, mostly in the areas of wage and benefits, as operations continue to intensify.
- A full year of Baja Fresh operations should equate to a $325,600 increase in total expenses.
- Total Folsom Hall Café expenses are projected at $69,800, in its first year of operations.
- Total Catering wage and benefit costs are forecast to rise by $156,700 (24.9%).
- A total increase of $130,100 in Upper Eastside Lofts operating expenses is expected due to a combination of increases in the following areas: marketing, wage and benefits, utilities, and repair & maintenance.
- Budgeted overall Sponsored Programs Administration expenses are projected to increase by $145,600 (mostly Faculty, Centers & Institutes).
- Increased usage of the Julia Morgan House should increase expenses by $72,700.
- A $155,400 increase in annual post-retirement health insurance expenses is budgeted due to revised actuarial assumptions and computations.
- A position previously vacated in Human Resources is being filled, resulting in additional wage and benefit costs of $45,000.
- Upper Eastside Lofts operating expenses are budgeted for a $120,500 increase. This is primarily due to an increase in RA compensation in exchange for eliminating their receipt of free housing. There is a corresponding increase on the revenue side.
Decreases
- Certain depreciable assets at the Hornet Bookstore will become fully depreciated during 2015-16 and reduce overall depreciation expense by $97,900.
- The cost of owning the University House is expected to decrease by $48,600.

Total budgeted labor and benefit costs for 2015-16 are $12,044,300. This represents a $1,036,200 (9.5%) increase over revised 2014-15. This increase is attributable to:
- Increased post-retirement health insurance expenses.
- Budgeted new positions include the following: Two new Dining Services supervisor positions, an Event and Property Coordinator for the Julia Morgan House, and the filling of the HR Assistant position, previously vacated, in Human Resources.
- Increases in medical premium rates ranging from 2% - 4% while dental insurance rates will remain unchanged.
- The effect of the increases in minimum wage requirements and sick leave for part-time staff.

Benefits and payroll tax expense as a percentage of total payroll expenses equals 27.2%, compared to 26.6% for forecasted 2014-15.

Total planned capital expenditures for 2015-16 are $1,147,900, resulting in additional annual depreciation of $100,200. Actual year-to-date capital expenditures for 2014-15 total $1,369,100 through March 31 against $1,081,600 budgeted for the entire year. The current year total includes $2,766,700 for the purchase of the University House. Following are budgeted 2014-15 capital expenditures greater than $100,000:

<table>
<thead>
<tr>
<th>Description</th>
<th>Location</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Folsom Hall Café equipment and construction</td>
<td>Folsom Hall</td>
<td>$164,485</td>
</tr>
<tr>
<td>Lab Hood controls upgrade</td>
<td>Placer Hall</td>
<td>$108,500</td>
</tr>
<tr>
<td>Modoc Hall tenant renovations – CCE</td>
<td>Modoc Hall</td>
<td>$250,000</td>
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<tr>
<td>Modoc Hall tenant renovations – TBD</td>
<td>Modoc Hall</td>
<td>$120,000</td>
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DEPARTMENTAL SUMMARIES (amounts include corporate overhead)

Dining Services
- A surplus of $155,400 is budgeted for 2015-16 against a forecasted surplus of $251,100 for 2014-15, a decrease of $95,700.

Central Dining Services
Central Dining Services (CDS) comprises vendor dining activities occurring in the River Front Center (as well as Subway), the Library and Modoc Hall Java City operations, self-operated by UEI, and the following UEI operated venues: Togo’s, Java City at the Roundhouse, RF Greens, Starbucks and Baja Fresh. Baja Fresh and the Folsom Hall Café are new locations expected to open in June and August 2015, respectively. The above operations will contribute to total CDS revenue and expense of $2,550,300 and $3,021,700, respectively, for a projected deficit of ($471,400) against a ($418,900) deficit forecast for 2014-15.
CDS sales revenue is expected to increase significantly, by approximately $726,500, owing to $89,300 in increased sales at Starbucks along with combined sales of $595,200 at Baja Fresh and the Folsom Hall Café. A corresponding increase in Cost of Goods Sold, representing the value of the food sold, estimated at $189,300 will produce a partial offset to revenue. The top five contracted vendors, in order of projected
revenue, are Panda Express, Subway, Saigon Bay Express and Hiraku. Depreciation expense is projected to increase by $118,300 as a result of start-up construction costs at Baja Fresh and the Folsom Hall Café, as well as Starbucks incurring a full-year’s worth of depreciation for the first time resulting from original start-up construction costs. Staffing obligations at the two new venues will result in additional wage, tax and benefit costs of $198,500. Finally, additional operating expenses will cause total Central Dining Service expense to increase by $197,600, before overhead.

Food sales from Togo’s should decrease slightly against a slight increase in total expense, yielding a ($149,500) deficit. There should be only moderate variance in the two Java City operations with both expected to lose approximately $50,000 - $56,000. Starbucks and Baja Fresh are forecasting overall deficits of ($162,700) and ($196,300), respectively. RF Greens is projecting a deficit of approximately ($91,500), a slight reduction from the current year forecast.

UEI receives an annual $480,000 commission from Pepsi. Prior to 2014-15, this money was applied to the Broad Athletic Facility commercial paper obligation. With this debt having been prepaid by UEI in September 2013, the funds are now used in general Dining Service operations, including an annual $25,000 contribution to the Department of Athletics. UEI is obligated to purchase products from Pepsi at contract prices and must meet volume thresholds in order to avoid refunding commissions at the end of the contract term.

**Vending**
UEI operates 93 vending machines (59 Pepsi/34 Canteen) on campus, generating approximately 83,000 annually in commissions, and rising every year. Commission rates are 18.0% and 22.5% respectively, for Pepsi and Canteen machines. Staffing efficiencies and corrections in electricity charges should contribute to an overall budgeted surplus of $51,000.

**Dining Commons**
Dining Commons represents 21.7% of total Dining Services net revenue. Recently in relative decline as a higher percentage of students were using meal points at the Courtyard Market, sales figures are back on the increase, including 7.8% projected over the current year, due to an increase in meal plan fees combined with more students expected to purchase meal plans. There is however, a 5.1% increase in expenses, before overhead, serving to maintain the deficit at approximately ($119,600). Total projected cost of goods is 27.1% of revenue. There are a variety of factors impacting this area, including food costs, minimum wage requirements and expanded hours.

**Summer Conferences**
Summer Conference revenue is forecast to significantly exceed budget in 2014-15. This is considered somewhat of a historical aberration with the 2015-16 budget reflective of that. High personnel costs as a percentage of total revenue (65.3%) should yield a deficit of approximately ($188,800).

**Courtyard Market**
Courtyard Market revenue continues its steady rise, now consistently generating net revenue over expense well in excess of $1M annually. Projected gross margin of $2,568,000 covers total expenses of $1,212,400. A projected 3.4% increase in revenue is attributable to the meal plan fee increase and higher enrollment as is the case with the Dining Commons. Food costs of 28.0% reflect a reduction from 30.1% in the current year. Net revenue now exceeds one-quarter of total Dining Service revenue (25.5%). There are only marginal increases in total expense with an overall surplus of $1,355,600 projected.

**University Union**
University Union includes the following: University Union vendors, Catering, Concessions, Epicure Restaurant, Java City (the Buzz and Eco-Grounds) and Good Eats! Combined, a deficit in the amount of
($471,511) is projected, slightly higher, (by $46,400) than that projected for 2014-15. Staffing additions serve to increase total expense by $194,300, offsetting an increase in gross margin of $179,600.

University Union vendors comprise dining activities occurring in the Union, in order of projected revenue: Round Table Pizza, Panda Express, Gordito Burrito, Burger King Express, Jamba Juice and Mother India. Unlike the Riverfront Center, Union vendors regularly generate surpluses, including a cumulative $206,000 projected for 2015-16. Union personnel costs only amount to approximately $24,300 annually.

Catering is expected to take a step backwards in 2015-16 as a ($332,400) deficit is budgeted. While revenue continues to rise (8.1% in 2015-16), enhanced staffing will reduce the bottom line by an additional $156,700 over the current year. Cost of food used for catered functions is approximately 22.4% of total revenue.

Concessions have trended more toward the use of on-campus food trucks and away from more traditional concession operations. The budgeted surplus is $22,200, $4,400 lower than the current year due to additional labor and overhead costs.

Epicure Restaurant gross revenue is projected to approach $100,000. Care continues to be given to controlling food costs with a cost of food percentage of only 25.1%. Staffing requirements are onerous. Personnel costs alone exceed gross revenue. Extensive renovations have contributed to total annual depreciation expense of $74,000. The result is a projected total deficit of ($215,700), consistent with previous years. The restaurant is open only for lunch and only during the fall and spring semesters.

The two Union-based, self-operated Java City locations are projecting a combined deficit of ($69,100), which would represent a significant improvement over a 2014-15 deficit forecast of ($125,000). Eco-Grounds is expected to yield a first-time surplus while the Buzz should continue to lose money. Combined food costs continue to increase, now projected at 36.1%. While Eco-Grounds generates higher revenue, extensive staffing requirements at the Buzz, along with high operating costs, are the primary cause of its annual deficit.

Good Eats! continues its steady increase in gross revenue every year with another 18.4% rise predicted for the 2015-16 budget year. However, high salary expense as a percentage of revenue (39.0%) remains a factor and is expected to lead to a deficit of ($82,600), $23,600 less than the current year. Good Eats! continues to be burdened by approximately $53,000 in annual depreciation costs. Also, food cost percentages remain relatively high (34.1%).

**Sponsored Programs Administration**
- A deficit of ($1,975,600) is budgeted for 2015-16 against a forecasted deficit of ($1,778,500) for 2014-15, a decrease of $197,100.

Formerly Research Administration and Contracts Administration, Sponsored Programs Administration (SPA) has two main components: Faculty, Centers & Institutes (FCI) and University Support Programs (USP). It is important to stress that, among other elements; corporate overhead is calculated and assigned based on total projected gross revenue for all direct activity, which approximates $28.2M. The projected overhead charge for 2015-16 is $2,103,500. When added back to the deficit, SPA is actually showing a $127,900 surplus. Total FCI and USP indirect recovery on grants and contracts is projected at $2,319,400, for an effective cost recovery rate of 8.3%. Total forecasted recovery for 2014-15 is $2,262,900, also yielding an indirect rate of 8.3%.
Revenue and expense activity reported both in this budget as well as internal UEI financials is exclusive of revenue realized from direct receipt of grant and contract awards and the direct expenditures related to those awards. Rather, it includes indirect costs recovered as a percentage of direct grant revenue as well as general operating expenses.

In decline in previous years, FCI activity continues to reverse course and is projecting a $51,000 increase in revenue over the current year, on totals of $2,089,800. Pre-overhead surplus is projected at $154,600. Inclusive of overhead, the total budgeted FCI deficit is ($1,423,000), an increase of $97,900 over the current year’s deficit. USP is far less lucrative and carries lower cost recovery opportunities while the cost of running those programs is less than for the FCIs. The result is a ($552,600) budgeted deficit. Increases in staffing obligations are the cause of a deficit expected to expand by $99,200 during 2015-16.

UEI remits 43% of its actual FCI fee revenue back to Sac State’s Academic Affairs division in the form of “shareback”. UEI retains the remaining 57%. The shareback represents an effort to capture the amount of time and effort incurred by University “pre-award” personnel in furtherance of grant and contract efforts. The amount estimated for 2015-16 is $898,600, which reflects 85.1% of total budgeted SPA operating expenses.

FCI activity began to decline sharply in 2009-10 and is only just recently recovering, while not yet approaching previous levels in terms of total contract dollars awarded. However, proposal submissions, amounts and dollars of actual awards received, and project expenditures are all back on the rise.

**Property Services**

- A surplus of $1,894,700 is budgeted for 2015-16 against a forecasted surplus of $1,501,500 for 2014-15, an increase of $393,200.

Property Services accounts for 48.5% of total UEI revenue and 40.0% of total expense. Revenue is expected to increase by 3.6%, the result of higher projected occupancy at the Upper Eastside Lofts, expanded use of the Julia Morgan House, and rental income recovered at Modoc Hall with the College of Continuing Education and an additional University entity with whom negotiations are underway, replacing the space vacated by USGS. These will only be partially offset by the decrease in the commission guarantee at the Bookstore. (See Bookstore below). Total expense is expected to rise by only 0.7%. Higher operating expenses at the Upper Eastside Lofts are projected. Depreciation expense reduction at the Bookstore should approach $100,000. Increased activity at the Julia Morgan House should lead to approximately $73,000 in additional expenses. There are currently 13 properties that fall under the heading of Property Services, of which five are expected to generate surpluses, with eight yielding deficits. These are summarized below, in descending order of surplus/deficit.

**SURPLUS PROPERTIES**

**Folsom Hall – 188,098 sq. ft.**

Folsom Hall, originally a commercial office building, is master-leased to the University and is continuing its transition into an educational facility. It generates 38.7% of total Property Services revenue. It is currently 20.0% occupied by the School of Nursing and affiliated classrooms, 7.8% by Physical Therapy, and 6.4% by University Transportation & Parking, Academic Talent Search, the Center for Entrepreneurship, North Central Information Center and Public Health Survey Research Project. Effective no later than November 2015, the California Northstate University, College of Health Sciences undergraduate program will assume occupancy of the entire third floor. The remaining 35.8% remains unoccupied. Plans are in place for future occupancy by the Department of Speech, Pathology and Audiology and possible other University units. The master
lease agreement with the University is expected to produce $5,558,100 in lease income during 2015-16, yielding a total surplus of $3,471,100 for Folsom Hall. These funds are used for debt service payments on the 2011 bonds, reserves for property systems and structural maintenance, and recovery of UEI's cash invested in the property. Folsom Hall is considered a direct-financing lease which incurs $1,147,300 in annual interest expense charges on its debt.

**Placer Hall – 67,100 sq. ft.**
USGS occupies 81.0% of Placer Hall under the continuing Cooperative Agreement with the remaining 19.0% housing the University's Geology department. It is budgeted to yield a surplus in the amount of $377,100 from $1,323,900 in lease and rental revenue. Amounts recorded as lease revenue decline every year due to accounting adjustments. However, actual cash received remains constant. Placer Hall incurs approximately $457,000 in annual interest expense and is classified as a direct financing lease originally financed through the issuance of 2005 Series A and B bonds. Total projected expenses for 2014-15 are $887,500 and expected to remain constant with the current year.

**Del Norte Hall – 35,784 sq. ft.**
UEI owns and operates Del Norte Hall under a ground lease. It is fully occupied by a combination of Sac State uses and UEI Projects - The University's Human Resources (34.1%), College of Continuing Education (17.4%), UEI's Archeological Research Center (13.2%), and the University's Anthropology Department (5.7%). The remaining 29.6% is occupied by various University classrooms. 2015-16 forecasts call for a surplus in the amount of $230,700, just slightly higher than the current year projection. 57.5% of total expenses are attributable to depreciation charges. Revenue from this building is used to meet debt service coverage ratios on the 2005 bonds.

**USGS Warehouse (23rd Avenue) – 19,100 sq. ft.**
Similar to Placer Hall, the Warehouse is fully occupied by a combination of USGS (81.0%) and the Geology Department (19.0%). It is a 29 year old building, devoid of debt, with budgeted rental income of $180,000, consistent with prior years. Overall expenses are manageable in relation to revenue. The result is a property which produces consistent annual surpluses in the $80,000 - $90,000 range.

**ATM Services**
UEI receives $16,700 in rent from the deployment of two automated teller machines located in Del Norte with no corresponding expenses.

**DEFICIT PROPERTIES**

**Upper Eastside Lofts - $147,006 sq. ft.**
The Lofts consist of two components: Student Housing and UEL Commercial. The combination results in a total budgeted deficit of ($966,900) for 2015-16 against a revised forecasted deficit of ($872,300) for 2014-15. The increased deficit is largely the consequence of annually increased master lease payments. The UEL 15-year master lease expires on July 31, 2022.

- **Student Housing** – Projections from EdR Collegiate Housing, responsible for oversight of the UEL, call for total student lease revenue of $2,655,800, a 3.9% increase over the current year, as occupancy rates are expected to increase. Other sources of revenue include conference housing income and parking fees. UEI pays annual rent of $2,075,900 at the Lofts, representing 56.7% of total expense and 78.2% of rental income. The addition of all other operating expenses results in a net deficit of ($875,600) on just the Student Housing portion of UEL operations.
- **UEL Commercial** - Comprises activities related to businesses leasing commercial space from UEI and operating at the Lofts. They include: Anytime Fitness, What's the Scoop, Bikram Yoga, and
Dad’s Restaurant, which replaced Mr. Pickles last year. The latter nonetheless remains obligated to pay rent through the end of the lease term (April 2016). Combined rental income is budgeted at $258,500, comparable to the current year. Total budgeted expenses are $349,800 of which 60.9% goes to rent. The overall budgeted deficit is ($91,300).

**Modoc Hall – 81,065 sq. ft.**
The US Geological Survey has downsized its presence in Modoc Hall, with 19.6% of its vacated space now occupied by the College of Continuing Education (CCE) and the remainder anticipated to be 9 occupied by a University entity in 2015-16. USGS still occupies 35.3%. The remaining tenants in Modoc include the Office of Water Programs (16.3%), US Fish and Wildlife (7.1%), the Chancellor’s Office Teaching program (4.5%), UEI Dining Services (4.2%) and University Advancement (2.8%). 10.5% of the building remains vacant. Negotiations are ongoing with a University entity who would lease the remainder. Due to high interest and depreciation expense, insufficient to offset rental income, the building is projected to lose $583,700. Current year losses are projected at ($909,800) as CCE replaces rents lost from the partial departure of USGS. Modoc Hall is burdened with $1,180,600 in annual interest expense, representing 68.3% of total revenue.

**Hornet Bookstore – 93,170 sq. ft.**
The actual Bookstore comprises 52.6% of the building space with UEI’s 3rd floor offices accounting for 25.4% and the remaining 22.0% unassigned, “common” areas, such as lobbies and hallways. UEI’s commission guarantee from Follett has been reduced to $1,270,600, per agreement stipulating commission revenues of 92.5% of the prior year’s figure. UEI also receives $74,500 in annual rent from University pre-award for their use of the 3rd Floor. $18,000 is included in revenue for the anticipated addition of a Wells Fargo Bank branch and ATM in the Bookstore. Total Bookstore interest and depreciation expense account for $1,431,000 in total expenses, which exceeds the amount of the commission by $160,400. Including operating expenses and corporate overhead, the Bookstore’s deficit is $411,700. The building is classified as a capital lease through UEI’s lease agreement with the University.

**Julia Morgan House – 7,200 sq. ft.**
The historic Julia Morgan House serves as a fully functioning conference and event facility. A grand total of $804,600 has been spent on the house in the form of renovations, improvements, equipment and furnishings with $131,100 in annual depreciation expense now charged. In combination with higher operating and wage expenses necessary to operate the house, a loss of ($118,100) is projected. However, $188,000 in total event revenue will serve to markedly curtail the deficit. As a client base is developed, break-even results are expected in future years.

**University House – 7,837 sq. ft.**
The University House is currently listed for sale.

**Napa Hall – 33,932 sq. ft.**
This facility is 100% occupied by the College of Continuing Education. Its original acquisition was bond financed and it is considered a direct financing lease. Napa Hall incurs an annual deficit as a result of interest expense which equals 58.7% of total revenue in addition to annual operating expenses of approximately $202,900. The budgeted deficit of ($88,700) is almost exactly that forecast for 2014-15.

**3707 T Street – 986 sq. ft.**
UEI is the owner of the home adjacent to the Julia Morgan house which was obtained at a purchase price of $292,500. The property is leased at $1,600/mo. ($19,200 annually) against total expenses of $25,000; of which $13,600 reflect operating expenses.
UEI is the owner of the home next to the Julia Morgan house, obtained at a purchase price of $399,000 in December 2014. The property is leased at $1,875/mo. ($22,500 annually) in rental fees against total expenses of $24,400, the majority of which is depreciation and property tax expense.

**Contract Services**

- A surplus of $55,300 is budgeted for 2015-16 against a forecasted surplus of $60,500 for 2014-15, a decrease of $5,200.

Contract Services includes an annual fee received by UEI from the University Foundation for the provision of accounting and administrative services. It also encompasses the following areas: Truck Rental, Licensing, Electronic Billboard, and Union-WELL HR Services.

**University Foundation**

Effective July 1, 2014, the University Foundation and UEI extended the accounting/administrative agreement between the parties for three additional years. The service fee for 2014-15 was $150,000, and is increasing to $175,000 for the 2015-16 budget year. The calculated value of services to the Foundation in the form of allocated staff time and operating expenses totals $266,800. Therefore, a deficit of ($91,800) is projected. The fee will increase to $200,000 in the 2016-17 fiscal year, the final one of the agreement.

**Truck Rental**

$17,100 in rental income is derived from the leasing of three vehicles on behalf of the Archeological Research Center. After deducting for fleet expenses, a surplus of $6,310 is projected.

**Licensing**

UEI is budgeting a $2,000 increase in licensing revenue. Of monies collected by UEI, 50% is remitted to the University, per agreement. The remainder ($32,000) is budgeted to revenue for 2015-16 and compensates UEI for administering the licensing program.

**Electronic Billboard**

UEI is anticipating the receipt of approximately $145,000 in annual rents from Clear Channel for the Electronic Sign on Route 50. In addition, $75,000 is recognized in annual deferred revenue for the original $750,000 lump sum receipt covering what is a 25-year agreement. Of the above amount, $45,000 is remitted to Public Affairs and $40,000 allocated for Faculty Research Grants, leaving an overall surplus of $128,600 after applying overhead.

**Union-WELL HR Services**

Per agreement with the Union-WELL, UEI receives a fee equal to 10% of Union-WELL payroll in exchange for providing payroll and HR services. The amount budgeted for 2014-15 is $484,600, which represents a $14,100 increase over the current year. The account is burdened with significant corporate overhead resulting in a projected deficit of ($22,800).

**California Intern Network**

- A surplus of $58,700 is budgeted for 2015-16 against a forecasted deficit of ($53,200) for 2014-15, an increase of $112,000.

Entering its third full year of operation, California Intern Network (CAIN) is the successor to the former Student Employment Services (SES). It was extracted from Research and Contract Administration (now
Sponsored Programs) and redeployed as a stand-alone department. CAIN was revamped as a result of the side letter agreement between the State of California and SEIU Local 1000, whose result was the layoff of 1,300 UEI student employees in August 2012. Revenue is in the form of indirect cost recovery on student contracts. Budgeting for this figure remains problematic due to the continuing uncertainty surrounding the awarding of state contracts, and the projected pace of hire of new students. At its height, the CAIN student population was 1,600. The current figure is approximately 720, having risen over 100% in the past 12 months. $1,411,400 in revenue is budgeted, against projected $1,276,500 for 2014-15, as continued growth is anticipated in the form of 10%-20% increases in contract activity. Budgeted pre-overhead surplus is $1,036,900. The corporate overhead charge reduces the surplus projection to $58,700 against a current year deficit forecast of ($53,200). Expenses are relatively low, consisting mostly of personnel costs.

Administration
Administration is broken down into the following areas: Investment Administration, Benefits Clearing, Information Technology, Business Services, Administration, Human Resources, Marketing Services, Payroll, Cashiers Services, and Building Services. These are the traditional “overhead” centers which are not normally income-producing. The work performed in the aforementioned areas is considered necessary to support the operations of UEI’s revenue-producing units who benefit from those services. It is for that reason that those departments are charged a proportionate share of corporate overhead expense. A total of $5,550,400 is distributed as overhead, representing 84.5% of total administrative expenses. Post-retirement medical expenses and contributions to the University are excluded from the overhead pool.

The only income derived from Administration is investment income earned on UEI’s investment portfolio, managed by Sand Hill Global Advisors, as well as interest income earned from the remainder of UEI’s investments (CDs and LAIF investments), and checking accounts. UEI does not budget for either unrealized or realized market gains or losses. As a result, the $574,100 in the budget plan includes only actual dividend and interest income projected to be earned during 2015-16. Following is a comparison of budgeted administrative 2015-16 expenses against forecasted 2014-15 expenses:

<table>
<thead>
<tr>
<th>Area</th>
<th>Revised 2014-15</th>
<th>Proposed 2015-16</th>
<th>Increase/Decrease (in $)</th>
<th>Increase/Decrease (in %)</th>
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<tr>
<td>Benefits Clearing Account</td>
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<td>828,360</td>
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<td>809,751</td>
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<td>Human Resources</td>
<td>866,843</td>
<td>977,489</td>
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<tr>
<td>Marketing Services</td>
<td>454,832</td>
<td>511,948</td>
<td>57,116</td>
<td>12.6%</td>
</tr>
<tr>
<td>Payroll</td>
<td>407,367</td>
<td>415,521</td>
<td>8,154</td>
<td>2.0%</td>
</tr>
<tr>
<td>Cashiers Services</td>
<td>163,309</td>
<td>166,309</td>
<td>3,000</td>
<td>1.8%</td>
</tr>
<tr>
<td>Building Services</td>
<td>744,450</td>
<td>783,474</td>
<td>39,024</td>
<td>5.2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,241,715</strong></td>
<td><strong>6,575,118</strong></td>
<td><strong>333,403</strong></td>
<td><strong>5.3%</strong></td>
</tr>
</tbody>
</table>

EXPLANATION OF SIGNIFICANT VARIANCES (plus or minus 5%)

Benefits Clearing Account
The results of UEI’s most recent post-retirement actuarial study revised the estimated amount of the total liability to be amortized annually. The amortizable portion of the total was increased by $103,300 with the
remaining difference representing a reduction in annual “pay-as-you-go” funding into the plan, also slated to increase by $52,100.

Information Technology

The re-inclusion of a PC Technician position, previously vacated through a termination, will contribute to a budgeted $59,300 increase in wage and benefits expense.

Administration

During 2014-15, UEI made a $150,000 donation to the President’s Scholarship, as well as a $25,000 sponsorship for the Green and Gold Gala. Neither expense is budgeted for 2015-16.

Human Resources

Total salary and benefit expenses are projected to increase by $81,100, mostly due to the replacement of an HR Assistant position, which had been vacated in 2014-15. The introduction of the new Performance Management system is budgeted at $17,000

Marketing Services

A full-time Graphic Designer is expected to be on staff for the entire fiscal year, rather than a partial as was the case in 2014-15. Other internal staffing reclassifications are also contributing to the overall increase.

Building Services

Internal staffing reclassifications are contributing to the increase in total personnel expenses. There are also marginal increases in certain operating expense categories.

Barth reviewed the proposed capital expenditures over $10,000 and the mandatory/non-mandatory unrestricted net asset reserve goals for 2015-16.

Following discussion it was moved to approve the 2015-2016 Operating Budget, Capital Outlay and Schedule of Unrestricted Net Assets Reserves. (Cook/Lee)

Director Reinhart informed the committee of discussions with the University concerning Sponsored Programs Admin Indirect Cost Recovery and also UEI liquidity for the future Dining Services servery renovation estimated at $6M.

Reinhart discussed the Voluntary Employee Beneficiary Association (VEBA) Trust funding. Following discussion the committee approved the following motion:

“Move to approve a contribution for UEI Central Staff to the Voluntary Employee Beneficiary Association (VEBA) Trust in the amount of $500,000. Contributions from the Union Well and the Office of Water Programs, for which UEI is the employer of record, in the amounts of $67,000 and $45,000 respectively, are also authorized.” (Bates/Sater)

The meeting was adjourned at 2:34p.m.

Respectively submitted:

Arlette Barnard

Recording Secretary