



## **PD EDITORIAL: SSU foundation's stand on loans is another risky strategy**

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Do the ends justify the means when it comes to the Sonoma State Academic Foundation's practice of issuing private loans to local land owners?

SSU President Ruben Armiñana seems to think so.

The loans were "absolutely legal, proper and appropriate," Armiñana said Wednesday in his first interview with The Press Democrat since news about the loans broke in mid-June. "The fact is that every one of those loans did perform superbly well."

Not every one. This story only came to light because Clem Carinalli, the largest property owner in Sonoma County and a former foundation board member, said he could no longer repay a \$1.25 million loan. The foundation is taking possession of a 10.5-acre parcel of land north of Windsor that Carinalli used to secure that loan. According to a foundation attorney, the property is said to be worth less than the outstanding loan.

The public has not yet been given a full accounting of the personal loans that have been made. But it would certainly appear that Armiñana is correct in saying that the investments have paid off. In fact, since Armiñana became SSU president in 1992 and turned the foundation into a key fund-raising arm, its investment portfolio has grown more than tenfold.

But there's also no question that the foundation board, which is responsible for investing and overseeing donations made to the university, exposed the assets in its care to inordinate risk. As Staff Writer Nathan Halverson reported, at one time more than half of the foundation's \$40 million investment pool was locked up in loans to local landowners. (All but a few of those loans have since been paid off.) Foundations of similar size tend to invest no more than 3 percent of their total portfolios in such alternative investments, according to the National Association of College and University Business Officers.

Records show that auditors repeatedly warned about the exposure caused by this practice. In terms of managing risk, the board's strategy may have been legal, but it was far short of responsible.

The damage caused by the downturn in the local real estate market could have been far worse.

Equally troubling is the issue of how these loans originated and how they ended up concentrated around one former foundation board member. As Halverson has reported, county records show that the foundation issued at least 21 loans over a nine-year period

from 1994 to 2003. Of those, six went to Carinalli and another 12 were arranged through his mortgage company, Sonoma Mortgage & Investments. At one point, more than 20 percent of the foundation's investment portfolio was locked up in loans to Carinalli.

Could no one else be found to accept or broker these deals? How did the foundation go about soliciting and selecting the recipients of these loans? Questions such as these still need to be answered.

In a July 16 Close to Home, members of the SSU foundation board dismissed questions about cronyism arguing that Carinalli "resigned from the foundation board" before any of the loans were made.

How long exactly? Two days. The board is dreaming if it expects the public to believe that's sufficient time to avoid the appearance of a conflict of interest.

Armiñana contends that a proposed bill by state Sen. Leland Yee, D-San Francisco, requiring university foundations to comply with open meeting laws, would not have changed the SSU foundation's investment strategy. We have our doubts. Transparency of this kind has many benefits, not the least of which is helping boards and commissions achieve a higher standard for their decisions than just that which is legally defensible.

We're also skeptical about the foundation's apparent plan to rebuild public trust by insisting its practices and policies have been above reproach and, one is left to assume, require no adjustment. That seems like another high-risk strategy to us.