



SSU foundation hit by Carinalli loans

Losses in 6-figures; developer was member of endowment's board

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The Sonoma State University Academic Foundation stands to lose hundreds of thousands of dollars on a \$1.25 million loan it made to Clem Carinalli, a former SSU foundation board member who announced in May he is unable to pay some of his creditors.

The loan was one of more than two dozen loans made by the foundation to individuals and businesses during the 1990s and the early part of this decade.

Carinalli's company, Sonoma Mortgage & Investment Co., arranged more than two-thirds of those loans, according to mortgage documents filed with the county.

The projected loss on the loan made by the foundation to its former board member comes at a time when the university is facing sharp cuts in state funding and an endowment fund devastated by the losses on Wall Street.

The university expects it will have to reduce the number of scholarships awarded in the 2010-2011 academic year as a result of the losses in its endowment fund.

Carinalli is Sonoma County's largest individual land owner with properties valued at \$65 million, according to county tax records, but he is working to avoid bankruptcy after the real estate downturn left him unable to make payments to some of his lenders.

University officials were unable to answer Wednesday how a former foundation board member and his company arranged and received personal loans from the organization. Nor were they able to answer if Carinalli was a board member when the loans were made.

SSU President Ruben Armiñana declined to comment for this story.

The nonprofit foundation was established in 1974 to receive and invest donations made to the university. Its \$31million endowment fund is used to pay for hundreds of university programs, ranging from scholarships to on-campus exhibits and studies.

Two outstanding loans made to Carinalli represent almost 5 percent of the university's endowment fund, which already declined about 25 percent between June 2008 and March 2009 due to Wall Street losses.

The smaller endowment fund is expected to result in fewer scholarships for the academic year beginning in fall 2010, said Patricia McNeill, SSU's vice president for development and president of the foundation's board.

"There will be some impact," she said.

The foundation has postponed making any decisions on how it will change its distribution of funds given its smaller endowment, McNeill said. Scholarships represented about 30 percent of the \$1.9 million distributed by the endowment last year.

The university is already facing significant cuts in state funding, which will have a greater impact on the university than its diminished endowment, McNeill said.

The foundation is legally structured as a separate organization from the university, but it has no full-time employees. It hires an outside firm to manage its investments, but the private loans would have been approved by the foundation's officers and board members, McNeill said.

Its officers are all SSU executives, including Armiñana, SSU Chief Financial Officer Laurence Furukawa-Schlereth and McNeill.

Foundation board members must approve any private loans made to individuals, McNeill said.

But McNeill was not able to say how that process worked, because she has been working with the foundation only for the past two years, during which time no private loans were made, she said.

The last private loan made by the foundation was in 2003 to vintner and vegetable grower John Balletto, a longtime business partner of Carinalli's. Balletto repaid the \$1.5 million loan in 2007, according to county records that track any loan secured with land located in Sonoma County.

Like most of the 26 private loans made by the foundation between 1990 and 2003, Carinalli's company arranged Balletto's loan from the foundation, according to the land records.

Sonoma Mortgage arranged its first SSU foundation loan in 1994 for Wade and Pamela Olson and Florence Porter. It was only the fourth time the foundation had made a private loan, according to county records. That \$300,000 loan is still being paid off.

Carinalli used his company to arrange a loan for himself the next year, 1995. Armiñana was president of the university at the time.

By the late 1990s, the foundation was issuing several private loans a year, according to county records. Carinalli received six of the 18 loans arranged by his company.

Two of Carinalli's loans from the foundation are still outstanding — one for \$1.25million and another for \$232,500, according to McNeill and the foundation's most recent annual financial filing.

This spring, Carinalli informed the university's foundation he would cease making interest payments on the larger loan, according to the university. So far, he has continued to make payments, university officials said.

In a closed-door meeting arranged by Carinalli on Tuesday, he told lenders it would take three to four years until he might be able to repay the principals of his loans and that he could not pay any interest.

If that holds true, Sonoma State's foundation is expected to lose between \$262,500 and \$350,000 in interest payments it will not collect. It will lose more if Carinalli isn't able to repay the loan's principal amount in full.

The foundation was told the smaller loan would continue generating interest payments totalling \$22,087 annually, McNeill said.

She was unable to clarify why one loan was still receiving interest payments while the other was not.

Carinalli did not return a phone call requesting comment. He has consistently declined comment regarding his financial troubles.

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