

**WASHINGTON STATE OPPORTUNITY SCHOLARSHIP BOARD MEETING
JULY 28, 2023, 3:30 – 4:30 PM, ON MICROSOFT TEAMS
MEETING MINUTES**

The Board of Directors of the Washington State Opportunity Scholarship (WSOS) convened on July 28, 2023, via Microsoft Teams. The meeting was publicized as available to the public on the WSOS website.

Board members virtual: Brad Smith (Chair), Diane Cecchetti, Jane Park, Mike Wilson, Patrick Smith, Latisha Hill, Miller Adams

Members not present: Julie Sandler, Gary Rubens

Additional attendees: Gina Breukelman, Jolenta Coleman Bush, Jane Broom, Aileen Miller, Nancy Long, Javania Polenska, Dena Parmer, Lauren Pack, Courtney Chen, Jillian Luis, Francisca Mejia Campos, Jess Tholmer, Camille Reynaud, Lisa Magennis, Johnathan Luster, Tara Warming, Sam Svilar, Lyanne O'Connell, Rachel Wyers, Lindzey Lien, Joanna Moznette, Faye Alarcon, Nick Goodwin, Juan Carlos Gomez, Kendyl Puhon, Jessica Monger

Meeting Called to Order

Brad Smith, Chair, called the Board meeting to order at 3:32 pm.

Public Comment

No one signed up for public comment

Program Administration Discussion

Javania Polenska reviewed the problem that WSOS has in securing a long-term approach to program administration (PA). She said we have had three PAs since inception, and all of them have had challenges administering the program largely because of its size and complexity. WSOS has grown from one scholarship with one funding model and only a few hundred students to three scholarships using three different models, supporting thousands of students WSOS has increased its staff and systems to evolve with the needs of the program. Polenska said it is important to remember that we have had a hard time finding organizations willing to serve as our PA, which means that we have little choice. Polenska said that today's discussion is about finding a long-term solution to ensure stability for the program. This is not about our current PA, it is about the future. She said our goal is to find a short-term option to stabilize the current partnership with 501 Commons, specifically in the finance and accounting function. Polenska said, then we will discuss long-term options for PA and focus on two options. Option one is to identify a new, long-term PA. The second option is creating a non-profit to serve as the PA.

Polenska reviewed what we can do to support our current contract with 501 Commons. Under the law, we cannot provide additional funds to 501 Commons to accomplish the work that they bid on. She said that WSOS could take on additional expenses to protect our interests as long as the expenses directly benefit WSOS. They cannot duplicate the work that we are already paying for. Nancy Long, 501 Commons ED, identified some technical solutions that will improve the reporting function as well as our staff's ability to get answers to some of the questions that they need answered. Long also identified that they need additional expertise to utilize the finance and accounting software MIP. We have to make sure this work really benefits WSOS so that this person would be an employee of WSOS. 501 Commons would have to onboard them because the systems and software live with 501 Commons. We would utilize this role for some of the customer service aspects, reporting needs around donors, and other things like this. This person would play a key role in setting up the WSOS Foundation's finance and accounting function. Long has also requested additional support on the audit from last year. Polenska said she believes we need an additional \$200K in costs to the program to support the work with 501 Commons.

Miller Adams asked where the \$200K would come from. Polenska said we have the money. She said the \$200K is outside the initial budget, so it will be incremental to what the Board approved as part of the budget cycle. The \$200K is largely for the hiring of an FTE Controller. Brad Smith asked if this would be a one-time increase to the operating expense budget for WSOS by \$200K to cover this expense. Polenska affirmed this and said that once the Foundation is approved, it would no longer sit within the program budget, it would shift to the WSOS Foundation.

Polenska said that she and Long agree that the expenses we've outlined won't immediately solve the pain points, but it will help stabilize the function in the coming months. If approved, we will take immediate action but you will see the expense spread out over the next year.

Mike Wilson asked if this step helps to resolve current problems but asked if it would be a long-term solution to keep and improve the existing contract with 501 Commons. Polenska said that this would help stabilize us and get us through the remaining term of the contract. Polenska said it would not significantly transform the partnership to make it mutually beneficial for both organizations.

Adams asked how we confirm that this step will not raise any issues around procurement laws. Polenska said that if we are taking action that does not directly grant more money to 501 Commons, we are okay. She said that as we enter into these contractual relationships, we will make sure that we are very clear on what it means for WSOS and what it means for 501 Commons. When we hire the controller, we will make sure there is a clear division between labor responsibilities. Polenska said we will ensure that we aren't paying for services twice by hiring a controller. The other aspects of the work are things that WSOS could purchase. In our original contract with 501 Commons, we say that we can take on more cost, but it must be mutually agreed upon in writing. Polenska said she will work closely with our legal partner to assess all risks.

Polenska pivoted to long-term PA options to help create stability. One way to secure a long-term PA is to go out to RFP. We have learned that in order to attract a new bidder, we will need a contract of \$1.2M or higher. We learned that the fiscal sponsor's fee structure is driven by a percentage of incoming revenue. Polenska said that in conversations with potential partners, they would also take a percentage of the state match as well. Another thing that is good to know is that it still comes with the risk of finding available suitors. Two other aspects that are important to the partnership dynamics are culture and values. Polenska said that decision-making and control came up in conversations with possible PAs. We have had some of these same questions arise with our current PA. There is language that we have written into the existing contract to make sure that we can maintain some protections, particularly around hiring, compensation, and benefits. These are important considerations that we don't always know up front but could be a reason why someone opts out of the process. We could do this again, but it carries risks, and Polenska said she does not recommend this option.

Polenska said that she believes the better path forward is to create the WSOS Foundation. It is modeled after what we see in education, similar to community colleges. We have learned that we can start a foundation that has comparable costs to partner with a PA. Polenska said the benefits are that it creates a higher level of cost predictability because the foundation fees don't change with incoming revenue. She said that there are some staff efficiencies that can be gained because there are roles that happen on the program side that we would be able to assign the PA to take on. Polenska mentioned another benefit is that the foundation can evolve as the program changes.

Polenska shared a cost comparison and said that launching a foundation may be more cost-effective than partnering with a new PA because there are efficiencies in the salaries, taxes, and benefits. She said that in the last Board meeting, there were questions about the detail of the budget. She reviewed a WSOS Foundation pro forma for the next four years. Polenska said there were comments about the titles and compensation levels for the folks doing the work and that it seemed bloated. Polenska made changes, and that is reflected in the salary line item. She made sure there was enough funding for legal and consulting fees. She said the IT expense is actually pretty significant. This is because the PAs usually have that amount as part of their fee. Polenska said it is possible to strip out the WSOS component of that number and reduce the amount significantly. The IT number does include managed services. She said the last large number is other costs which is things like insurance.

Polenska said that there were questions about the funding of the foundation. She said she built in a ramp so that the foundation has its own next egg and that it can cover its costs in the future. The Foundation can fundraise, and we would want to take that on as a way to increase its own additional revenues to grow and support WSOS. Everything the foundation does has to be to the benefit of the WSOS program.

Wilson said that Polenska had done really good work in putting this together. He said that we talked about the fact that when a contract is signed with 501 Commons if there are additional financial needs, we are not able to modify the contract or the payment. He said that in the model where we are creating a foundation and we are projecting costs if we are not accurate and additional funds are needed by the foundation, with the restrictions that the government places on us regarding contracting between our organization and another organization, how do we resolve this? Polenska said that within the contract, we need to make certain there are allowances for additional costs that are mutually agreed upon because we don't have visibility to everything. She said that part of this work is the foundation's responsibility to ensure we have a long runway. Polenska said her goal is to ensure that we are doing some of the fundraising. Polenska said she is confident in our ability to deliver. The contingency fee will help, but we will have a better sense of the costs before we enter into a contract and ensure that we are well-aligned. She said we will make sure that in our contract, we have language that allows the program and the foundation to agree on any additional costs to support the work. We know today what many of the costs are. She said that one of the greatest challenges for 501 Commons is that they don't have the

number of people with the right expertise to take on the work so they are not able to take on the work. We looked at WA STEM and 501 Commons and have right-sized our budget. We won't have competing priorities because the foundation staff are solely focused on WSOS. As a result of this, we will have better and tighter cost controls than we would with another PA.

Polenska highlighted and compared the risks of the two options. The timeline to execute this before the end of the existing contract is high for a new program administrator because we have had conversations with about fourteen organizations, and only a couple are possibly willing to continue the discussion. We also know that WASC is having some capacity constraints and may not be able to begin the RFP process until later in the fall. We also learned through our work with 501 Commons that three months is doable but may not be enough time to actually successfully transition. The risk is medium for the WSOS Foundation. If we can hire the right people, we will be able to deliver this. Polenska said that the risk of detracting from WSOS program mission is low for the foundation and a new PA. The foundation is able to build it to suit. The third risk is the cost of maintaining the partnership. Our costs are controlled by the contract. Polenska said that once the fees are set, anything else that happens after that has to be agreed upon in writing. With the Foundation, WSOS has greater influence over those costs, and the WSOS program is the majority of the staffing, and the foundation exists to serve WSOS interests. The next two risks are culture and value misalignment and performance challenges. We don't know that there is a problem until things go wrong. Polenska said we would continue to take steps to mitigate these risks, but there are no guarantees. She said that from the foundation perspective, it is being born out of WSOS, and a lot of the culture, values, and alignment happens at the onset as they inherit who we are. If there are performance challenges, the WSOS Board and staff have a lot of influence on how things go. The WSOS Board is appointing the board for the Foundation, which creates an opportunity to collaborate in the hiring process. Polenska named the last area of risk that came up during the last meeting, which was IT integration. 501 Commons did a great job of building our own standalone O365 instance. She said that all of our data is stored in one place and is able to move with us, so this is a low risk for a new PA and for the foundation. There are questions as to what the foundation will choose to invest in as it relates to HR, payroll, and finance platforms. We have talked to 501 Commons and WA STEM about the pros and cons of the software they use. Polenska said she believes that the foundation would benefit from picking up what they have familiarity with and carrying it forward.

Polenska asked the Board if they had other worries or risks that they would like to address. No other risks were raised.

Polenska reviewed the timeline to launch the WSOS Foundation. She said if the Board says yes, she will take the steps to file for 501 C3 status because the foundation cannot assume WSOS as a client until they have that part of the process completed. We have no worries about this being achievable in the next three to six months. We have no control for how long the government takes to process the paperwork. Polenska said that while we wait for this to happen, the foundation staff and the controller would be able to begin some of the work to do the early build. Polenska said we will be working closely with Eileen Miler, our AAG, to make sure we are setting up the appropriate contracts to enable the foundation to begin its work. Polenska said the worst-case scenario is about four to eight months on the finance side of the house. Polenska said she is confident we can do this work before the end of our contract without risk.

Polenska said that she needs the Board to vote to cause the creation of a 501 C3 and that Polenska or Kimber Connors, depending on the timing of this, would be able to enter into a six-month agreement with up to \$200K in spending with the WSOS Foundation to support the build and transition. This is an interim contract to allow that entity to start to do some of that work. Polenska said she has had conversations with our AAG to make sure we structure it in an appropriate way. WSOS would come back to the Board once the Foundation has had additional time to sure up its budget to understand exactly what those costs will look like, whether that is an extension of another contract or if we are at a place to enter into a PA contract. The six-month contract is a bridge so the work can begin.

Brad Smith asked if there were any additional questions or feedback. There was none.

Board Action: Diane Cecchetti made a motion to authorize WSOS Interim Executive Director to spend up to \$200K on services and supports to stabilize the 501 Commons partnership and protect WSOS' financial interests; cause the creation of a 501c3 to serve as the PA of record at a future date; and to delegate authority to the (Interim) Executive Director to enter into a six-month agreement and up to \$200K in spending with the WSOS Foundation to support the build of the Foundation and transition of the WSOS program, Patrick Smith seconded the motion, and it carried unanimously.

The meeting adjourned at 4:28 p.m.

Respectfully submitted,
Dena Parmer