

San Diego State University  
Research Foundation



General Fund Budget  
FY 2014-2015

***Cover photo:*** Anderson Lab

SDSU Joint Doctoral Program in Ecology student, Sarah Wheeler (right) and student volunteer collect juvenile rockfishes using beach seines in Bodega Harbor, CA.

***Principal Investigator:*** Dr. Todd Anderson

Dr. Anderson is a professor of biology and director of SDSU's Coastal and Marine Institute (CMI) and its Laboratory (CMIL). CMIL is a facility for faculty and students conducting research in marine science and addressing environmental problems along the coast of southern California. CMIL also conducts outreach and education to students and the public, led by the Marine Biology and Ecology Student Association (MEBSA). Dr. Anderson also directs the Fish Ecology Lab, which focuses on the population ecology of coastal fishes.

Funding for Dr. Anderson's work has come from the National Science Foundation, National Oceanic and Atmospheric Administration, National Fish and Wildlife Foundation, National Undersea Research Program, Naval Facilities Engineering Command, California Sea Grant, the Port of San Diego, California's Department of Fish and Wildlife, the San Diego Foundation, and the National Institute for Underwater Science and Technology.

**This proposed 2014-2015 budget was approved by the SDSU Research Foundation board of directors on May 9, 2014 without any changes.**

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## MESSAGE FROM THE EXECUTIVE DIRECTOR

The FY 2014-15 proposed budget represents a plan to achieve our mission of service and support to San Diego State University and is based on our best estimates of financial resources.

This budget has been the most challenging one to prepare in many years. Revenues generated from F&A recoveries (Facilities and Administrative costs or indirect costs) continue their steep decline from a high of \$20.4 million in FY 2010-11 (which excludes \$1.9 million in temporary stimulus funding) to a projected \$15.9 million in FY 2014-15.

SDSURF revenues correlate to the number of active SDSU research faculty. Due to state budgetary reductions, this period saw a decline in the number of faculty from 820 in FY 2010-11 to 764 in 2013-14. As the federal budget improves and efforts to recruit more active researchers to SDSU continue, proposal submission, award, F&A and expenditure rates will increase.

While balancing this budget requires a significant withdrawal from reserves, with the help of the university we have been able to avoid even steeper reductions. This partnership has allowed us to make adjustments and shift costs in order to balance the budget and prepare for the challenges ahead.

The FY 2014–15 budget is based on the expectation that the university’s significant investment in research faculty and the research infrastructure will produce increased revenues over the next several years. Our long term strategy is summarized below:

- Continue to invest in strategic efficiencies which will enable us to streamline processes and procedures while providing better service at a lower cost
- Reduce costs through staffing reductions and workload adjustments
- Draw down reserves as necessary to bridge funding gaps and invest in infrastructure to reduce and manage operating costs
- Replenish reserves as the financial situation improves.

Management is recommending that ***\$2 million be withdrawn from reserves in order to balance the FY 2014 – 15 budget.***

Management’s goal is to use no more than \$2 million in reserves per year to balance the budget. This scenario allows the research foundation to stretch remaining reserves over the short term while allowing time for the investment in new research faculty to achieve the desired result of increased proposals and subsequent research awards.

Our initial budget projections anticipated using \$3.1 million in reserves to balance the FY 2014-15 budget – even after making additional reductions in staff and other operating costs. Fortunately, the university has agreed to waive \$1.1 million in certain allocations made by the research foundation. This waiver will allow the FY 2014-15 budget to be balanced by limiting our withdrawal from reserves to \$2 million.

We greatly appreciate this waiver of allocations to the university, and while we believe our strategy described above will succeed, in consultation with the university and PI community, we will proactively develop alternative strategies. We anticipate spending the first part of FY 2014-15 defining and prioritizing the essential services we provide and the organizational structure that delivers these services in the most efficient manner.

### Opportunity Ahead

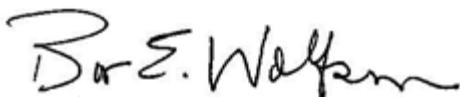
As we look ahead to FY 2014-15, there are challenges, but also these reasons for optimism:

- Our electronic initiatives will make operations more effective and continue to reduce costs. Significant progress has been made and significant benefits have been and will continue to be realized in the short and long terms.
- The Facility and Administrative (F&A) cost reimbursement rate proposal was negotiated and includes modest increases to our rate over the next four years. We anticipate that the increase in the rate will generate an additional \$100,000 - \$150,000 starting in FY 2015- 16 and this amount will increase as volume increases.
- The university hired 22 new faculty members in the fall of 2013 – many of them active researchers who have already submitted 26 proposals and received seven awards.
- Recruitments for eight of sixteen positions related to SDSU’s Areas of Excellence initiative are currently underway. An additional 59 new faculty are being recruited for 2013-14 – many in research-intensive disciplines.
- In addition to these recruitments, the university’s research investment has included start-up packages, equipment support, space renovation, facility upgrades, and resources related to grant development.
- In spite of last year’s difficult federal climate (sequestration, continuing resolutions and a shutdown which slowed and in some cases reduced the amount of funding available for grants and contracts), SDSU faculty continued submitting proposals and receiving impressive awards – including, for example, a prestigious \$2 million NIH Program Project grant and a new NSF CAREER award.
- On the state side we saw support for higher education stabilize and actually increase in some areas including support for the CSU system.
- The 2014-15 federal budget shows slight to moderate increases for agencies and areas important to SDSU; e.g., The BRAIN initiative, returning veterans, science education initiatives and the new First in the World Program. See Appendix A for a summary of the federal funding outlook.

Many thanks to the management team for the extraordinary work they’ve done to prepare this budget, particularly chief financial officer Melinda Coil. I offer a special note of thanks to all the dedicated staff who are working on our service initiatives. These committed employees are successfully balancing the demands and deadlines associated with these new projects while still keeping up with their daily workloads. It continues to be my honor to work with such professional and knowledgeable colleagues.

We are very grateful for the support of the university during these challenging times. As always, we will work with the board and the university to manage impact and to ensure that consistent and reliable service to SDSU researchers is maintained.

The university, which was described this past year by the local *Union-Tribune* as “an emerging power” has made a measurable and impressive commitment to research in the past year. We are proud to support these new initiatives and our SDSU researchers.



Bob E. Wolfson  
Executive Director

# GENERAL FUND BUDGET OVERVIEW

## ABOUT THE RESEARCH FOUNDATION

Incorporated in 1943, SDSU Research Foundation is an auxiliary organization of San Diego State University. Authorized by California's Education Code and governed by a board of directors composed of SDSU faculty/staff and community members, the organization exists to serve SDSU.

The research foundation management team works closely with SDSU's vice presidents for research and business and financial affairs to manage resources, set policies, and guide the efforts of a dedicated staff who seek to facilitate the work of SDSU researchers.

## ABOUT THE BUDGET

This document is organized to include two sections:

1. The Summary provides an overview of budget categories and Schedule 1 (Revenue Administered) and Schedule 2 (General Fund Budget 2014-15).
2. The Detail that begins on page 7 provides further explanation of the line items in Schedule 2.

The summary below provides an overview of the major budget categories.

*Schedule 1* provides an overview of total research foundation revenue. It compares FY 2012-13 actuals to the FY 2013-14 mid-year and the proposed FY 2014-15 budgets.

The **general fund unrestricted revenue** – at \$26,392,000 – makes up the unrestricted portion of total revenues generated by research foundation activities. These include: grants and contracts (reimbursement for university and research foundation facilities and administrative (F&A) costs related to research), self-support programs (research foundation's administrative fee), rents, royalties and other Technology Transfer Office (TTO) income, and investments.

**Restricted revenue** – the remaining \$120,934,000 – includes grants and contracts (direct cost reimbursements), self-support programs (funds held in trust for the College of Extended Studies, KPBS, and The Campanile Foundation) and contributions to the university. While these restricted revenues are included in the research foundation's financial statements, they are not part of the general fund budget.

**Total research foundation revenue, including restricted and unrestricted, is projected to be \$147,326,000 for FY 2014-15. This is a decrease of 17.0% from FY 2012-13 actuals.**

*Schedule 2* presents the General Fund Budget in the following major categories: Source of Funds, Use of Funds (Basic Support and Allocations), and Reserves. The components of each of these categories are explained in the Budget Detail narrative starting on page 7. Highlights of the General Fund budget follow:

***Overall, FY 2014-15 unrestricted revenue is expected to decrease 18.8% from FY 2012-13 actuals.***

**Basic Support.** *Basic Support is projected to decrease 6.9% from FY 2012-13 actuals.*

**Allocations.** Even though **allocations** decreased by a net 19.6% from the FY 2012-13 actuals, research support funds (RSF) are budgeted at 100% of the estimated amount.

**Reserves.** The budget shows a net of \$2.0 million coming from reserves to balance the budget. This includes a waiver of approximately \$1.1 million in annual allocations provided to the university in FY 2014-15.



**Schedule 1**

<b>REVENUE ADMINISTERED</b>									
	<i>Actual FY 2012-13</i>			<i>Mid-year Budget FY 2013-14</i>			<i>Proposed Budget FY 2014-15</i>		
	<i>Total</i>	<i>Restricted</i>	<i>General Fund (Unrestricted)</i>	<i>Total</i>	<i>Restricted</i>	<i>General Fund (Unrestricted)</i>	<i>Total</i>	<i>Restricted</i>	<i>General Fund (Unrestricted)</i>
Grants and Contracts	\$ 108,364,049	90,400,260	\$ 17,963,789	\$ 105,422,000	88,323,000	\$ 17,099,000	\$ 99,967,000	84,067,000	\$ 15,900,000
Self-Support Programs	37,406,291	34,432,049	2,974,242	30,774,000	27,635,000	3,139,000	30,511,000	27,401,000	3,110,000
Rents	9,853,995	(38,951)	9,892,946	6,210,000	-	6,210,000	5,769,000	-	5,769,000
Royalties and Other TTO Income	148,297	-	148,297	362,000	-	362,000	225,000	-	225,000
Investments	2,220,032	684,168	1,535,864	914,000	(706,000)	1,620,000	854,000	(534,000)	1,388,000
Contributions - KPBS	17,660,969	17,660,969	-	10,000,000	10,000,000	-	10,000,000	10,000,000	-
Other Income	1,753,639	1,753,639	-	-	-	-	-	-	-
Total Revenue-SDSU Research Foundation	<u>\$ 177,407,272</u>	<u>144,892,134</u>	<u>32,515,138</u>	<u>\$ 153,682,000</u>	<u>125,252,000</u>	<u>28,430,000</u>	<u>\$ 147,326,000</u>	<u>120,934,000</u>	<u>26,392,000</u>
<i>Revenue-Campanile Foundation (1)</i>	<u><b>44,461,138</b></u>			<u><b>30,000,000</b></u> (1)			<u><b>43,000,000</b></u> (1)		
<i>Revenue administered by SDSURF</i>	<u><u>\$ 221,868,410</u></u>			<u><u>\$ 183,682,000</u></u>			<u><u>\$ 190,326,000</u></u>		

(1) Total revenue including The Campanile Foundation revenue is relevant since SDSU Research Foundation provides administrative services for all Campanile Foundation funds.

## Schedule 2

<b>General Fund Budget 2014-15</b>				
	<b>FY 2012-13 Actual</b>	<b>FY 2013-14 Original</b>	<b>FY 2013-14 Mid Year</b>	<b>FY 2014-15 Proposed</b>
<b><u>SOURCE OF FUNDS</u></b>				
<b><i>Unrestricted Revenue:</i></b>				
Grants & Contracts F&A	17,530,750	16,947,000	16,947,000	15,900,000
American Recovery and Reinvestment Act F&A	433,039	179,000	152,000	-
<i>Total Facilities &amp; Administrative Cost Recovery</i>	<u>17,963,789</u>	<u>17,126,000</u>	<u>17,099,000</u>	<u>15,900,000</u>
Self-Support Programs Fees	2,974,242	3,213,000	3,139,000	3,110,000
<b><i>Facilities Rents</i></b>				
Program Facilities	853,520	850,000	842,000	810,000
Commercial	4,628,195	3,758,000	3,933,000	3,705,000
University	1,405,265	1,549,000	1,435,000	1,254,000
Housing	3,005,966	-	-	-
<i>Total Facilities Rents</i>	<u>9,892,946</u>	<u>6,157,000</u>	<u>6,210,000</u>	<u>5,769,000</u>
Royalties and Other TTO Income	148,297	147,000	362,000	225,000
Investments	1,535,864	1,718,000	1,620,000	1,388,000
<b><i>Total Unrestricted Revenue</i></b>	<b><u>32,515,138</u></b>	<b><u>28,361,000</u></b>	<b><u>28,430,000</u></b>	<b><u>26,392,000</u></b>
<b><u>USE OF FUNDS</u></b>				
<b><i>Basic Support</i></b>				
Administration & Operations	13,856,746	13,796,000	14,107,000	14,225,000
<b><i>Facilities</i></b>				
Facilities Operating Expenses	7,856,638	6,254,000	6,148,000	6,290,000
Capital Improvements	259,602	321,000	300,000	292,000
Tenant Improvements	514,647	464,000	502,000	421,000
Debt Service Payments	4,116,240	3,328,000	3,701,000	3,537,000
<i>Total Facilities Rents</i>	<u>12,747,127</u>	<u>10,367,000</u>	<u>10,651,000</u>	<u>10,540,000</u>
<b><i>Total Basic Support</i></b>	<b><u>26,603,873</u></b>	<b><u>24,163,000</u></b>	<b><u>24,758,000</u></b>	<b><u>24,765,000</u></b>
<b>Net Remaining after Providing Basic Support</b>	<u>5,911,265</u>	<u>4,198,000</u>	<u>3,672,000</u>	<u>1,627,000</u>
<b><i>Allocations for Enhanced Program Support:</i></b>				
Direct Support of Research	3,610,979	3,298,000	3,256,000	2,906,000
Support of Research Infrastructure	1,626,127	1,650,000	1,647,000	1,676,000
Investment in Enhanced Service Initiatives	662,000	162,000	192,000	162,000
<b><i>Total Allocations</i></b>	<u>5,899,106</u>	<u>5,110,000</u>	<u>5,095,000</u>	<u>4,744,000</u>
<b><u>RESERVES</u></b>				
Working Capital	(683,211)	(912,000)	(1,423,000)	(3,117,000)
Debt Service	696,000	-	-	-
Waiver of Certain University Allocations	-	-	-	1,117,000
<b><i>Net Funds to (from) Reserves</i></b>	<b><u>12,789</u></b>	<b><u>(912,000)</u></b>	<b><u>(1,423,000)</u></b>	<b><u>(2,000,000)</u></b>
<b>TOTAL SOURCE OF FUNDS</b>	<b>33,198,979</b>	<b>29,273,000</b>	<b>29,853,000</b>	<b>28,392,000</b>
<b>TOTAL USE OF FUNDS</b>	<b>33,198,979</b>	<b>29,273,000</b>	<b>29,853,000</b>	<b>28,392,000</b>

The research foundation's general fund budget is approved annually by the research foundation's board of directors. It outlines the research foundation's operating budget based on anticipated unrestricted revenues, basic support expenses and allocations.

Certain reclassifications have been made to the prior year's amounts to conform to the current year's presentation.

# GENERAL FUND BUDGET DETAIL

## SOURCE OF FUNDS

### *Unrestricted Revenue (Schedule 2)*

#### **Grants & Contracts – Facilities & Administrative (F&A) Cost Recovery (\$15,900,000)**

The major source of unrestricted revenue is *F&A cost recovery* from sponsored research. Projected F&A cost recovery represents 60.2% of total unrestricted monies available. Although the federal negotiated F&A rate is 49.5% of modified total direct costs\*, many awards receive a lower rate, and certain categories of expense may not be used when calculating the rate in accordance with federal rules. The actual recovery rate to date for FY 2013-14 is projected to be 25.6% of modified total direct costs. Proposed F&A for FY 2014-15 (\$15,900,000) reflects a decrease of 7.0% over the FY 2013-14 mid-year projection, and an 11.5% decrease when compared to FY 2012-13 actuals. This decrease is due to the decline in anticipated awards, expenditures and work in process balances compared to prior year.

Estimating F&A cost recovery for the future involves projecting the volume of proposals that will be submitted and awarded, the dollar amount of awards that will actually be expended during the budget period and the F&A cost recovery percentage to be earned. These components are analyzed in the following sections: Proposals Submitted and Awards Received (Schedule 3), Work in Process (Schedule 4), Spending Trends (Schedule 5), and F&A Cost Recovery (Schedule 6).

The university's continued efforts to invest in researchers and the research infrastructure are of critical importance. Last year's investments included, for example, \$3.2 million in start-up packages for the faculty hired in the new Areas of Excellence and approximately \$1 million in equipment and upgrades to research facilities. We believe these investments will have a positive impact on revenue over the next several years.

\*Modified Total Direct Cost is a technical term used to define the basis of the F&A rate calculation. It equals all sponsored research direct cost less equipment, sub-contracts greater than \$25,000, and participant cost and space rent. Rates vary from 26.0% to 49.5% dependent on whether a grant is classified as research, instruction or other sponsored program activity and whether it takes place on or off campus.

**Proposals Submitted and Awards Received**

To sustain the level of F&A recovery earned in the last several years, faculty must continue to submit proposals and receive awards at rates consistent with prior years. The dollar amount of awards for the first nine months of FY 2013-14 has decreased from the same time last year. Management is currently projecting between \$103M and \$107M in total awards for FY 2013-14.

*Schedule 3* provides a summary of proposals and awards from FY 2012-13 and a comparison of actual numbers through March for the last two years. Fluctuations based on timing are taken into consideration. Based on the funding analysis and current projections, management anticipates that this decreasing trend will continue in the near future. The federal funding outlook is further analyzed in Appendix A.

*Schedule 3*

	<b>Proposals Submitted &amp; Pending/Awards Received</b>		
	Actual	Cumulative Year-to-Date through	
			March
	FY 2013	FY 2014	FY 2013
# Proposals Submitted	908	653	667
\$ Amount Proposed	\$169,245,114	\$119,882,775	\$121,811,570
\$ F&A Costs Proposed	33,350,557	24,291,472	24,598,448
% F&A Costs Proposed /Direct Costs	24.54%	25.41%	25.30%
# of Pending Proposals	358	371	414
\$ Amount Pending	\$64,583,841	\$66,854,563	\$80,434,158
\$ F&A Costs Pending	14,524,775	16,037,294	18,714,034
% F&A Costs Pending /Direct Costs	29.02%	31.56%	30.32%
# Awards Received	709	519	499
\$ Awards Received	\$115,708,473	\$73,751,198	\$79,788,522
\$ F&A Costs Awarded	18,806,227	11,067,210	12,988,829
% F&A Costs Awarded/Direct Costs	19.41%	17.66%	19.44%

## WORK IN PROCESS

Work in Process (WIP), which reflects the amount of direct costs and F&A awarded but not yet spent, is an important indicator. As noted below in *Schedule 4*, SDSU Research Foundation has fewer dollars in WIP and specifically in F&A at this time than in the prior year.

*Schedule 4*

### Work in Process

	Actual YTD 14 - March 31, 2014			Actual YTD 13 - March 31, 2013			TRADITIONAL	CHANGE
	TOTAL	ARRA	TRADITIONAL	TOTAL	ARRA	TRADITIONAL	\$ Increase (Decrease)	% Increase (Decrease)
<b>Salaries</b>	19,970,210	77,404	19,892,806	23,708,424	401,951	23,306,473	(3,413,667)	(14.65%)
<b>Benefits</b>	8,238,889	123,557	8,115,332	8,409,126	237,241	8,171,885	(56,553)	(0.69%)
<b>Other Direct</b>	31,910,577	1,006,524	30,904,053	27,428,740	1,234,804	26,193,936	4,710,117	17.98%
<b>MTDC</b>	60,119,676	1,207,485	58,912,191	59,546,290	1,873,996	57,672,294	1,239,897	2.15%
<b>Equipment</b>	815,304	0	815,304	1,258,217	759	1,257,458	(442,154)	(35.16%)
<b>Student Support</b>	6,706,212	34,817	6,671,395	6,577,828	101,465	6,476,363	195,032	3.01%
<b>Subcontracts</b>	14,519,595	95,031	14,424,564	19,647,332	943,157	18,704,175	(4,279,611)	(22.88%)
	22,041,111	129,848	21,911,263	27,483,377	1,045,381	26,437,996	(4,526,733)	(17.12%)
<b>Total Direct</b>	82,160,787	1,337,333	80,823,454	87,029,667	2,919,377	84,110,290	(3,286,836)	(3.91%)
<b>F&amp;A Costs</b>	15,967,451	50,510	15,916,941	16,512,680	263,617	16,249,063	(332,122)	(2.04%)
<b>Total Costs</b>	98,128,238	1,387,843	96,740,395	103,542,347	3,182,994	100,359,353	(3,618,958)	(3.61%)
<b>F&amp;A Costs/MTDC</b>	26.56%	4.18%	27.02%	27.73%	14.07%	28.17%	-26.79%	

### SPENDING TRENDS

F&A is earned when principal investigators/projects actually spend their awarded funds. The expected direct cost expenditure level for FY 2014-15 is dependent on the submission of proposals, receipt of awards, and the spending schedule related to the awards. *Schedule 5* provides the results for the nine months ending March 31, 2014 and shows that spending trends are down from prior year.

*Schedule 5*

	SPENDING TRENDS						TRADITIONAL CHANGE	
	Actual YTD 14 - March 31, 2014			Actual YTD 13 - March 31, 2013			\$ Increase (Decrease)	% Increase (Decrease)
	TOTAL	ARRA	TRADITIONAL	TOTAL	ARRA	TRADITIONAL		
<b>Salaries</b>	27,463,025	137,253	27,325,772	29,298,295	684,523	28,613,772	(1,288,000)	(4.50%)
<b>Benefits</b>	7,893,003	18,596	7,874,407	8,316,537	134,206	8,182,331	(307,924)	(3.76%)
<b>Other Direct</b>	11,486,893	107,309	11,379,584	12,543,812	354,849	12,188,963	(809,379)	(6.64%)
<b>MTDC</b>	46,842,921	263,158	46,579,763	50,158,644	1,173,578	48,985,066	(2,405,303)	(4.91%)
<b>Equipment</b>	1,509,692	(10,079)	1,519,771	793,433	34,213	759,220	760,551	100.18%
<b>Student Support</b>	5,372,911	76,560	5,296,351	5,565,469	200,281	5,365,188	(68,837)	(1.28%)
<b>Subcontracts</b>	9,687,231	568,476	9,118,755	7,732,676	611,803	7,120,873	1,997,882	28.06%
	16,569,834	634,957	15,934,877	14,091,578	846,297	13,245,281	2,689,596	20.31%
<b>Total Direct</b>	63,412,755	898,115	62,514,640	64,250,222	2,019,875	62,230,347	284,293	0.46%
<b>F&amp;A Costs</b>	11,967,169	103,408	11,863,761	12,650,394	340,662	12,309,732	(445,971)	(3.62%)
<b>Total Costs</b>	75,379,924	1,001,523	74,378,401	76,900,616	2,360,537	74,540,079	(161,678)	(0.22%)
<b>F&amp;A Costs/MTDC</b>	25.55%	39.30%	25.47%	25.22%	29.03%	25.13%		

**F&A Cost Recovery Percentages**

*Schedule 6* reflects the F&A cost recovery for the past ten years and projections for FY 2013-14 and FY 2014-15.

***Schedule 6***

<b>Sponsored Program Expenditures and F&amp;A Effective Cost Recovery Rates (Including ARRA Funds)</b>					
Fiscal Year	Total Costs	MTDC	Other *	F&A Costs	F&A Rate Effective Rate
2004-05	115,229,540	70,188,758	30,547,265	14,493,517	20.65%
2005-06	109,470,605	70,319,851	24,163,947	14,986,807	21.31%
2006-07	105,405,951	69,744,247	20,708,680	14,953,024	21.44%
2007-08	109,539,095	71,861,260	21,468,804	16,209,031	22.56%
2008-09	119,238,251	73,734,590	26,983,145	18,520,516	25.12%
2009-10	126,100,292	78,003,589	27,361,098	20,735,605	26.58%
2010-11	135,239,456	82,360,529	30,531,222	22,347,705	27.13%
2011-12	122,853,501	76,722,184	26,173,745	19,957,572	26.01%
2012-13	108,364,049	68,307,579	22,092,681	17,963,789	26.30%
2013-14 **	104,107,000	66,924,000	20,084,000	17,099,000	25.55%
2014-15 **	99,967,000	62,426,000	21,641,000	15,900,000	25.47%

\* In previous budget reports, certain expenses in the "other" category were included in MTDC  
 \*\* Projected

<b>Sponsored Program Expenditures and F&amp;A Effective Cost Recovery Rates (Excluding ARRA Funds)</b>					
Fiscal Year	Total Costs	MTDC	Other *	F&A Costs	F&A Rate Effective Rate
2004-05	115,229,540	70,188,758	30,547,265	14,493,517	20.65%
2005-06	109,470,605	70,319,851	24,163,947	14,986,807	21.31%
2006-07	105,405,951	69,744,247	20,708,680	14,953,024	21.44%
2007-08	109,539,095	71,861,260	21,468,804	16,209,031	22.56%
2008-09	119,163,347	73,691,907	26,972,052	18,499,388	25.10%
2009-10	120,660,341	75,336,691	25,807,137	19,516,513	25.91%
2010-11	124,009,588	76,902,998	26,670,402	20,436,188	26.57%
2011-12	115,256,465	72,589,920	23,752,215	18,914,330	26.06%
2012-13	105,287,885	66,788,252	20,968,883	17,530,750	26.25%
2013-14 **	103,440,000	66,537,000	19,956,000	16,947,000	25.47%
2014-15 **	99,967,000	62,426,000	21,641,000	15,900,000	25.47%

\* In previous budget reports, certain expenses in the "other" category were included in MTDC  
 \*\* Projected

**Self-Support Programs Fees (\$3,110,000)**

*Self-support programs fees* (\$3,110,000) are fees on expenditures for programs in the College of Extended Studies, KPBS and various academic departmental accounts. Fees earned for providing services to The Campanile Foundation and its gift funds are also included in this category. It is anticipated that funds received from these fees will decrease by \$29,000 or 1.0%. This decrease is based on earnings year-to-date as compared to past trends.

**Rents (\$5,769,000)**

The original FY 2013-14 budget included a major realignment of the research foundation's property holdings. This realignment was implemented during FY 2013-14 and involved transferring management, income, expenses and debt of certain properties to Aztec Shops. This university initiative more closely aligned each auxiliary's property with its mission.

The category of funds identified as rents includes the following: 1) rents collected as a direct cost from grants and contracts programs where full F&A costs are not recovered; and 2) revenues collected from commercial and university sources. Total rents are estimated at \$5,769,000 for FY 2014-15, a net decrease of \$441,000 or 7.1% over the mid-year FY 2013-14 budget, due to the property realignment. See *Appendix B* for further detail.

**Royalties and Other Technology Transfer Office (TTO) Income (\$225,000)**

The research foundation earns royalty income from the sale of each product or service licensed under specific copyright or patent agreements. It is anticipated that we will experience a decrease of \$137,000 or 37.8% in these revenues in the FY 2014-15 budget when compared to the mid-year FY 2013-14 budget primarily due to a one-time royalty distribution received in FY 2013-14 as part of a settlement.

**Investments (\$1,388,000)**

The investment income accruing to the general fund budget arises primarily from short-term investments of working capital, designated reserves, unexpended balances in self-support programs, and unrestricted monies the board has designated as quasi-endowment funds.

Historically, the research foundation received the investment income on unexpended balances in The Campanile Foundation non-endowment spending accounts as part of the payment for rendering services related to fiscal management of these funds. (The earnings on SDSU Research Foundation and The Campanile Foundation endowment funds are retained by each endowment.) Effective July 1, 2013, SDSURF began paying The Campanile Foundation interest on cash balances held at SDSURF and now essentially breaks even on cash held on behalf of The Campanile Foundation. The decrease in investments reflects an anticipated overall decrease in cash available for investment and fluctuating interest rates. Investments are projected at \$1,388,000 for FY 2014-15, which represents a 14.3% decrease when compared to the mid-year FY 2013-14 budget. See *Appendix C* for additional detail.



## USE OF FUNDS

### *Basic Support*

#### **Administration & Operations (\$14,225,000)**

Administration and operations costs cover the support functions necessary to provide an appropriate level of service to research foundation clients and to accomplish various compliance requirements imposed by regulatory agencies. As a non-profit corporation, the research foundation must comply with federal and state laws and regulations. As an auxiliary organization of the CSU system, the research foundation must also comply with policies and procedures of SDSU as well as those of the Trustees and Chancellor's Office that pertain to all auxiliary organizations. Sound internal controls and good business practices dictate that we establish and maintain adequate business systems, policies, and critical major procedures to properly manage and account for all funds and other assets under our care, custody, and control.

*Schedule 7* provides a summary of general administration and operations expenses by expense type.

Schedule 7

	Administration & Operations by Expense Type						Proposed compared to		Proposed compared to	
	Actual		Mid-year		Proposed		FY 2012-13 Actual		Mid-year FY 2013-14	
	FY 2012-13	% of Total	FY 2013-14	% of Total	FY 2014-15	% of Total	\$ Increase (Decrease)	% Increase (Decrease)	\$ Increase (Decrease)	% Increase (Decrease)
Personnel Costs:										
Salaries	8,479,915	61.20%	8,630,000	60.67%	8,763,000	61.60%	283,085	3.34%	133,000	1.54%
Benefits *	3,442,031	24.84%	3,594,000	25.27%	3,563,000	25.05%	120,969	3.51%	(31,000)	(0.86%)
	<u>11,921,946</u>	<u>86.04%</u>	<u>12,224,000</u>	<u>86.65%</u>	<u>12,326,000</u>	<u>86.65%</u>	<u>404,054</u>	<u>3.39%</u>	<u>102,000</u>	<u>0.83%</u>
Operating Costs:										
Legal	65,528	0.47%	136,000	0.96%	75,000	0.53%	9,472	14.45%	(61,000)	(44.85%)
Insurance	81,867	0.59%	101,000	0.71%	120,000	0.84%	38,133	46.58%	19,000	18.81%
Supplies	81,439	0.59%	74,000	0.52%	71,000	0.50%	(10,439)	(12.82%)	(3,000)	(4.05%)
Equipment	230,866	1.67%	62,000	0.44%	68,000	0.48%	(162,866)	(70.55%)	6,000	9.68%
Travel	64,423	0.46%	84,000	0.59%	85,000	0.60%	20,577	31.94%	1,000	1.19%
Contracted Services **	791,507	5.71%	741,000	5.21%	834,000	5.86%	42,493	5.37%	93,000	12.55%
Audit	286,605	2.07%	263,000	1.85%	264,000	1.86%	(22,605)	(7.89%)	1,000	0.38%
Other ***	332,565	2.40%	422,000	2.97%	382,000	2.69%	49,435	14.86%	(40,000)	(9.48%)
	<u>1,934,800</u>	<u>13.96%</u>	<u>1,883,000</u>	<u>13.35%</u>	<u>1,899,000</u>	<u>13.35%</u>	<u>(35,800)</u>	<u>(1.85%)</u>	<u>16,000</u>	<u>0.85%</u>
	<u>13,856,746</u>	<u>100.00%</u>	<u>14,107,000</u>	<u>100.00%</u>	<u>14,225,000</u>	<u>100.00%</u>	<u>368,254</u>	<u>2.66%</u>	<u>118,000</u>	<u>0.84%</u>

\* Retiree medical is included in this line.

\*\* Contracted services include computer maintenance services, HR management and consultants.

\*\*\* Other operating costs include telephone, postage, duplicating, printing, equipment rental, professional development, publications, computer supplies and software.

The administration and operations budget amount of \$14,225,000 for FY 2014-15 is a projected net increase of \$118,000 or 0.8% from the mid-year FY 2013-14 budget. This net increase is the result of changes in the various components of the operating budget including:

<b>Reductions:</b>			
Strategic staff reductions of six positions	(351,000)		
Legal	(62,000)		
Annual VEBA contribution	(78,000)		
			(491,000)
<b>Increases:</b>			
Salary pool	219,000		
New position in the human resources department	126,000		
Health benefit costs	90,000		
Licensing fees for electronic systems	88,000		
Temporary programmer	66,000		
Insurance	20,000		
			609,000
			118,000

The salary pool includes funding needed for the 2% across-the-board salary increase provided to core staff effective January 1, 2014. The pool also includes funding for a salary increase in FY 2014-15 in anticipation that the university will provide raises; the research foundation attempts to remain comparable to the university. A full-time, high-level HR position with labor relations experience has been included in the budget due to the complexity of several initiatives impacting the area. It is anticipated that health benefit costs will continue to increase in FY 2014-15. Licensing fees are expected to increase with the new electronic systems the research foundation implemented in FY 2013-14. Funding was included for additional temporary programming support to stabilize and bring closure to several electronic initiatives.

#### **Facilities Expenses (\$10,540,000)**

Research foundation management is involved in a variety of activities related to real property, including the operating expenses related to administering the space provided to sponsored projects. Total facilities expenses of \$10,540,000 represent a net decrease \$111,000 from the mid-year FY 2013-14 budget or 1.0%. This decrease is due primarily to the realignment of property as discussed under Facilities-Rents above. Please see *Appendix B* for more detail.

## ALLOCATIONS

The Facilities and Administrative recovery of cost is a reimbursement of expenditures incurred to support the research infrastructure that cannot be directly charged to the sponsor. The majority of these costs are incurred by the university. A portion of F&A reimbursement is reinvested in the research enterprise through the allocations below.

Funds are allocated for specific support related to projects administered by the research foundation on behalf of the university.

### Direct Support of Research (\$2,906,000)

This category refers to those resources allocated to principal investigators and university organizational units in direct support of proposal development, on-going research programs or other research endeavors. Allocations include:

	FY 2012-13 Actual	FY 2013-14 Original	FY 2013-14 Mid-Year	FY 2014-15 Proposed
<b>Allocations for Enhanced Program Support:</b>				
<b>Direct Support of Research</b>				
Research Support Funds	3,372,443	3,052,000	3,010,000	2,711,000
University Grants Program	92,125	92,000	92,000	31,000
BioScience Center Development	52,556	60,000	60,000	70,000
Biology PI Administrative Support	93,855	94,000	94,000	94,000
Total	3,610,979	3,298,000	3,256,000	2,906,000

### **Research Support Funds (\$2,711,000)**

Research Support Funds (RSF) are funds allocated to colleges, principal investigators, and the vice president for research to support new or existing or new university research initiatives. This allocation is made by formula and governed by policies approved by the university and research foundation board.

The formula for projects eligible for RSF distribution is as follows:

- 15% to colleges/units (adjusted by space operating costs)
- 10% to PIs
- Additional 10% to high-volume PIs
- 10% of the amounts distributed to the colleges and PIs to the Vice President for Research for Institutional Support.

The following chart shows the projected FY 2014-15 RSF distribution.

<b>RSF DISTRIBUTION FY 2014-15</b>		
<b>Colleges/Units</b>		
RSF	\$ 1,820,000	
Space Adjustment	(855,000)	
Washington D.C. Representation	(54,000)	
Subtotal	911,000	
<b>PIs</b>		
RSF	\$ 1,201,000	
High-volume	399,000	
Washington D.C. Representation	(54,000)	
Subtotal	1,546,000	
<b>Institutional</b>		254,000
<b>Total Research Support Funds</b>		\$ 2,711,000

The ability to fund 100% of the RSF distribution formula is impacted by actual F&A expenditures, total revenues received by the research foundation and the requirement to cover mandatory expenses. FY 2014-15 distributions of RSF are based on the amount of actual F&A generated in FY 2013-14. Because estimated expenditures on full F&A projects are not expected to reach anticipated levels in FY 2012-13, the FY 2014-15 budget has been decreased. **The proposed FY 2014-15 budget funds 100% of the formula.** However, as in previous years, 80% (\$2,169,000) of the budget amount will be provided at the beginning of FY 2014-15. The remaining 20% (\$542,000) will be distributed as part of the mid-year FY 2014-15 budget if the projected unrestricted revenue goals are achieved.

The FY 2014-15 budget continues the practice of sharing the cost of the Washington D.C. representation with the colleges and programs that benefit from their activities. The amount distributed to the current year is based on earnings in the prior year.

#### **University Grants Program (\$31,000)**

These funds are allocated in support of the University Grants Program (UGP). The UGP is administered by the university and supports scholarly research; assists faculty at lower ranks to meet qualifications for retention, tenure, and promotion; permits faculty to bring advanced projects to conclusion; and helps faculty develop research programs that may be competitive for extramural funding. The allocation amount of \$31,000 for FY 2014-15 is the projected amount needed to replenish the fund to the research foundation's annual allocation level of \$92,000.

#### **BioScience Center Development (\$70,000)**

The BioScience Center (BSC) was established in 2006. The BioScience Center Development fund provides support to the BSC director equivalent to 10% of the F&A generated by PIs occupying BSC space. Funds are to be used to assist in the development of the BSC, a first class research center by recruiting new faculty, fundraising for the BSC, ensuring optimal utilization of space, and maintaining a high quality research program. There is a slight increase in the projection for FY 2014-15.

**Biology PI Administrative Support (\$94,000)**

Since the initial request in 1995, SDSU Research Foundation has contributed funds to help pay for administrative assistance in the biology department. This support is unique to a group of biology PIs. Both the PIs and the College of Sciences dean's office contribute additional funds they control to support the administrative functions. There is no change in the projection for FY 2014-15.

**Support of Research Infrastructure**

This category refers to allocations made in support of the infrastructure necessary to support and grow the research enterprise. Allocations include support for the following areas:

	<b>FY 2012-13 Actual</b>	<b>FY 2013-14 Original</b>	<b>FY 2013-14 Mid-Year</b>	<b>FY 2014-15 Proposed</b>
<b>Support of Research Infrastructure</b>				
Other Facilities and Equipment Support	372,766	390,000	387,000	300,000
Research Support - Library	50,000	50,000	50,000	-
Research Compliance	1,130,000	1,130,000	1,130,000	1,296,000
University Research Space	73,361	80,000	80,000	80,000
Total	<u>1,626,127</u>	<u>1,650,000</u>	<u>1,647,000</u>	<u>1,676,000</u>

**Other Facilities and Equipment Support (\$300,000)**

These monies are used primarily for facilities and equipment support, such as outfitting research foundation office space assigned to new projects. Office furniture, office equipment, and telephone installation is typically required immediately upon notification of a new award. A 22.5% decrease is anticipated in the projected budget for FY 2014-15.

**Research Support - Library (\$0)**

This allocation recognizes the role the SDSU library and its faculty/staff play in supporting SDSU's research mission. This allocation is intended to support the library with funding for research publications and subscriptions. This fund currently has a balance in excess of the allocation amount; accordingly, the allocation will be suspended until additional funds are needed.

**Research Compliance (\$1,296,000)**

Funds are provided to the university to offset a portion of its costs related to the infrastructure needed to support the required administrative and compliance activities of a research institution. These include support for the office of the vice president for research and the division of research affairs and these critical compliance activities: ensuring training and adherence to human subjects and animal subject regulations, biosafety and the safe use of radioactive materials in sponsored research programs, and oversight of export controls in accordance with federal regulations. There is a 14.7% increase in the projection for FY 2014-15.

**University Research Space (\$80,000)**

This line item is the result of a policy established by the CSU Chancellor's Office to provide a mechanism for the university to recover a portion of costs incurred on behalf of auxiliaries. This amount is paid to the university and is based on the use of university facilities by federally sponsored research projects providing full F&A cost recovery. There is no change in the projection for FY 2014-15.

**Investments in Enhanced Service Initiatives (\$162,000)**

This allocation is intended to support the overall research enterprise through large-scale initiatives to streamline processes, create efficiencies and develop opportunities for new research endeavors. Support includes:

	<b>FY 2012-13 Actual</b>	<b>FY 2013-14 Original</b>	<b>FY 2013-14 Mid-Year</b>	<b>FY 2014-15 Proposed</b>
<b>Investment in Enhanced Service Initiatives</b>				
Systems Infrastructure	500,000	-	30,000	-
Washington D.C. Representation	162,000	162,000	162,000	162,000
Total	<u>662,000</u>	<u>162,000</u>	<u>192,000</u>	<u>162,000</u>

Funding for FY 2012-13 included the initial investment necessary for the four initiatives identified by management, principal investigators, and the NCURA report as critical priorities.

These funds were allocated to start the following processes: 1) an electronic proposal routing initiative to streamline and expedite the process of moving a proposal through university and research foundation approvals; 2) a web-based time entry/reporting system to enable employees to complete time reports electronically; and 3) electronic onboarding of employees. In addition, a portion of these funds may be used to improve disaster and emergency preparedness systems and to include effort reporting in the electronic initiatives. No additional funding is anticipated in FY 2014-15 as these initiatives will be coming on-line in FY 2013-14.

**Washington D.C. Representation (\$162,000)**

The research foundation engages the firm of Carpi & Clay to advise the university on changes in federal policy related to sponsored programs and to identify specialized funding opportunities for the university. Part of this cost is allocated back to the colleges and PIs who benefit from this activity. A breakdown of RSF allocations, including this cost, is presented on page 16. There is no change in the projection for FY 2014-15.

## RESERVES

### **Net Funds to (from) Reserves (\$2,000,000)**

The budget shows a net of \$2.0 million from various discretionary Reserves for FY 2014-15 to balance the budget. The initial budget projections estimated that \$3.1 million would be required from reserves. The university agreed to a waiver of certain allocations in FY 2014-15 so that remaining reserves could be stretched over several years, allowing time for the investments in research to materialize. Management's multi-year strategy to address the decline in operating revenue uses a combination of reserves, selective staffing reductions and investments in enhanced service initiatives which allow us to capitalize on increased efficiencies and streamlined procedures. The plan is closely tied to the university's strategic plan to recruit active researchers and enhance the research infrastructure. See *Appendix D* for more detail.



# **GENERAL FUND BUDGET**

## **APPENDIX A**

### **FEDERAL FUNDING OUTLOOK**

#### **Sixteen Days That Shook the Grant World**

The last federal fiscal year saw the impacts of sequestration and another challenge unfolding during the first two weeks of October. With Congress unable to reach a budget agreement and no continuing resolution passed on September 30<sup>th</sup>, the government shut down.

The federal agencies that support SDSU experienced lapses in funding and could only provide essential services. Receiving and reviewing grant proposals was not deemed essential; applicants were discouraged from submitting proposals (paper or electronic) until operations resumed. Grant competitions were delayed. Pending proposals remained pending. No new awards, award increments, supplements or modifications were processed during the shutdown.

More than half the grants awarded to SDSU come directly from the federal government. Hundreds of grants had the potential to be impacted.

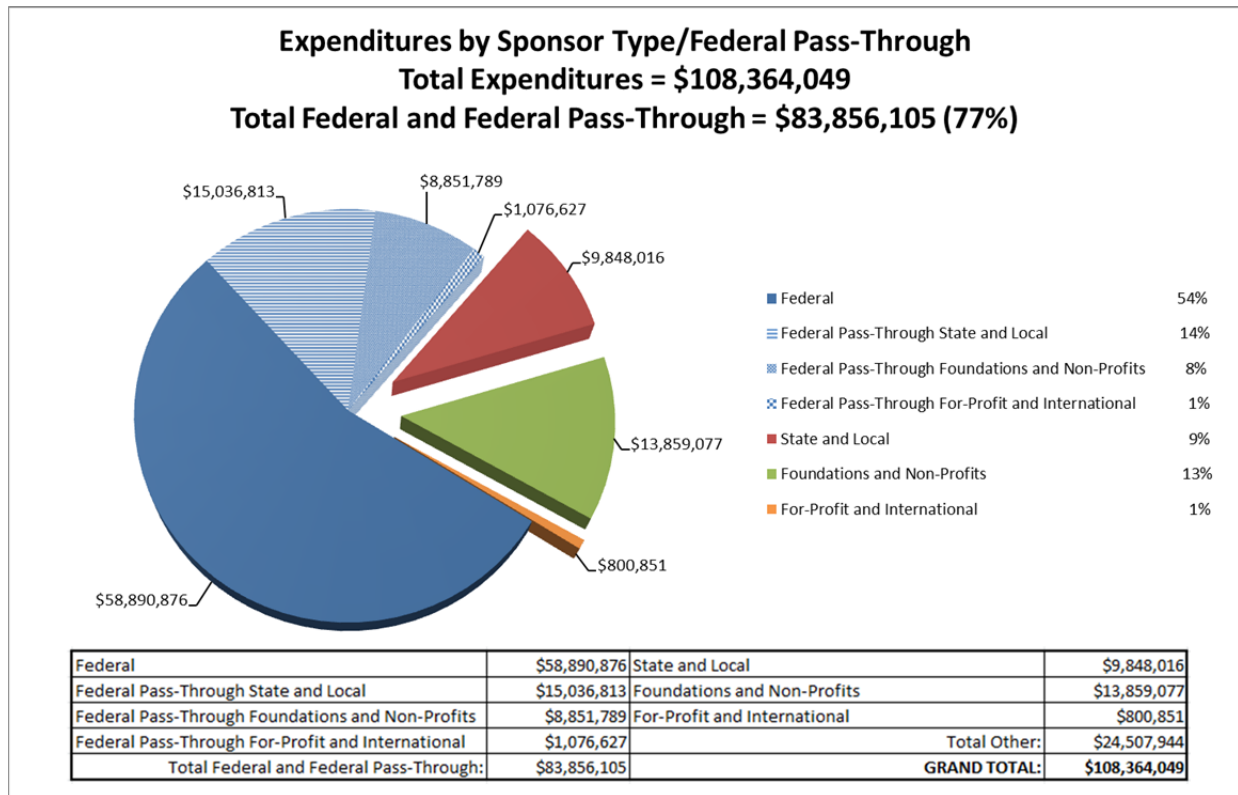
While the Health and Human Services Agency (NIH) allowed us to continue to draw down funds on existing awards, NSF's payment mechanisms were not available. We were unable to issue new sub- awards.

Federal staff were furloughed for the duration of the shutdown and not available for grant-related questions. Reporting systems were not functional and all agency reviews scheduled during the shutdown were canceled.

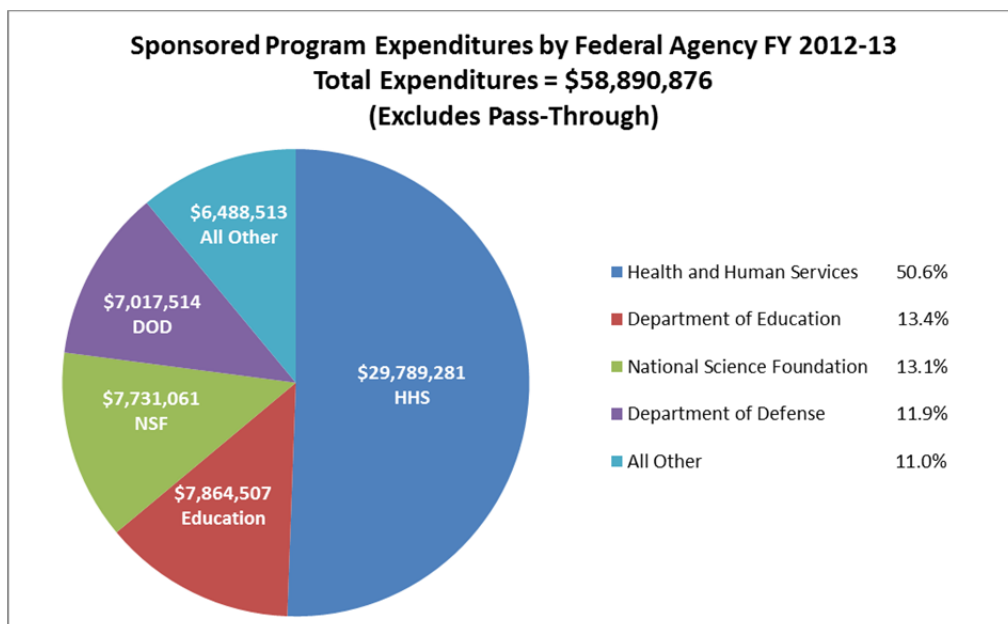
After sixteen days, it took some time for our sponsoring agencies to become fully operational again. Research foundation staff continued to work with faculty on proposal preparation during the shutdown and were ready to submit their proposals as soon as the shutdown was lifted on October 17<sup>th</sup>. Many review panels and grant cycles that had been scheduled during the shutdown were pushed into the next month so November was a productive month for proposal submissions.

#### **By the Numbers**

More than three-fourths of the research foundation's funding (measured by expenditures) is received either directly or indirectly (federally-funded grants that are "passed through" other organizations to the research foundation) from the federal government.



Of the research foundation’s direct federal funding, 51% comes from the Department of Health and Human Services (primarily the National Institutes of Health); 13% comes from the National Science Foundation.



**Last year's sequestration - mandatory across-the-board cuts to federal agency budgets - delayed and/or reduced grant funding from the agencies that support SDSU research.**

<h2 style="color: blue;">Sequestration</h2>							
<b>Estimated R&amp;D Cuts Under Balanced Sequestration, FY 2013-2017</b>							
(budget authority in millions of constant 2012 dollars)							
	2013	2014	2015	2016	2017	Total Cut	5-Year Percent
<b>Dept of Defense</b>	-6,928	-6,818	-6,696	-6,585	-6,495	-33,524	-9.1%
<b>HHS</b>	-2,528	-2,429	-2,333	-2,241	-2,155	-11,685	-7.6%
<i>NIH</i>	-2,439	-2,343	-2,251	-2,162	-2,079	-11,274	-7.6%
<b>Dept of Energy</b>	-972	-944	-916	-889	-865	-4,585	-8.2%
<b>Natl Sci Foundation</b>	-456	-438	-421	-404	-388	-2,106	-7.6%
<b>NASA</b>	-763	-733	-704	-676	-650	-3,527	-7.6%
<b>Dept of Agr</b>	-189	-182	-175	-168	-161	-875	-7.6%
<b>Dept of Commerce</b>	-103	-98	-95	-91	-87	-474	-7.6%
<b>Dept of the Interior</b>	-65	-62	-60	-57	-55	-299	-7.6%
<b>EPA</b>	-46	-44	-43	-41	-39	-213	-7.6%
<b>Homeland Security</b>	-50	-48	-46	-44	-43	-232	-7.6%
<b>Total R&amp;D Cut</b>	<b>-12,099</b>	<b>-11,796</b>	<b>-11,488</b>	<b>-11,196</b>	<b>-10,939</b>	<b>-57,519</b>	<b>-8.4%</b>

Source: AAAS estimates of R&D, based on CBO and OMB analyses of the Budget Control Act. Constant dollar conversions based on OMB's GDP deflators from the FY 2013 budget.

### Federal Budget: Some Good News

With the passage of a two-year budget that will carry us to 2015, Congress cleared the way for federal agencies to project their budgets and carry through on programs that had been on hold after last year's sequestration and shutdown.

Federal employees received a 1% increase in pay – another reason to be optimistic that things are turning around in Washington.

### Key 2014-15 Budget Points

#### *Spending ceilings increase*

- Non-defense discretionary spending will increase 4.9% from \$469 billion to \$492 billion, including \$65.9 billion for non-defense R&D
- Defense discretionary spending will rise 4.4% from \$498 billion to \$520 billion.

#### *Program priorities*

The following areas are a prime focus of the FY 2014-15 budget: health education and research related to health providers; social and behavioral sciences; STEM education; technology, innovation and entrepreneurship; and energy sustainability and economy. Another priority is the

\$56 billion Opportunity, Growth and Security Initiative which invests in education, research and innovation; infrastructure and jobs; and public health and safety. This initiative proposes additional funds for NIH, NSF, DOD, NASA, USDA, DOE, NIST, NOAA, and a Climate Resilience Fund.

### **NIH**

While NIH's budget decreased by approximately 15% between fiscal years 2004 and 2013, and FY 2012-13 sequestration cuts forced a drop of 640 competing grants and a historically low success rate of 16.8%, the FY14 budget provides \$29.9 billion to NIH. This will allow NIH to fund 385 more research grants.

Nearly all NIH institutes will receive a moderate funding boost.

NIH reinstated its science education initiatives that were abandoned last year.

The BRAIN Initiative will provide slight increases in the budgets of the National Institute of Neurological Disorders and Stroke and the National Institute of Mental Health.

### **HHS**

The **Health Resources and Services Administration** will receive \$5.3 billion for programs on primary health care, health workforce, rural health, Ryan White HIV/AIDS program and maternal/child health.

The **Centers for Disease Control and Prevention** will receive \$6.9 billion for projects like the Advanced Molecular Detection Initiative, Public Health Preparedness and Response Program and Project BioShield.

### **National Science Foundation**

NSF's FY 2013-14 appropriation of \$7.3 billion is unfortunately \$82 million below FY 2012-13 pre-sequestration levels. However, the budget includes \$5.8 billion for research, \$846.5 million for education and human resources and \$200 million for major research equipment and facilities. NSF has also released new initiatives related to improving undergraduate STEM education, STEM partnerships, and MS programs. There is a growing emphasis on crosscutting and interdisciplinary collaboration agency-wide.

While **Department of Defense** R&D funding dropped by \$6.9 billion to \$63 billion, DOD still receives substantial funding for R&D programs, especially related to the health of returning veterans.

The **Department of Energy** receives \$5.1 billion for the Office of Science including \$562 million for R&D to advance coal, natural gas, oil and other fossil energy technologies.

The **Department of Education's** \$70.6 billion budget is \$740 million below FY 2012-13 pre-sequestration levels but still includes \$75 million for the new First in the World program (which

is modeled after the FIPSE Program to which many SDSU faculty have applied in the past.) Education priorities include college affordability, early childhood education, reform of K-12 schools, attracting and retaining strong teachers, strengthening science, technology, engineering and math education. Titles III, V, TRIO, GEAR UP will receive level funding for the third straight year.

The **National Endowment for the Arts (NEA)** and **National Endowment for the Humanities (NEH)** avoided substantial cuts and will remain level with pre-sequestration funding levels. Each agency will be funded at just over \$146 million - a decrease of \$250,000 from previous levels.

The appropriation for the **Department of Homeland Security** includes \$1.2 billion for science and technology. While this is a \$300 million decrease, DHS still plans to invest in high-priority R&D efforts.

**Highlights of the president's proposed FY 2014-15 budget:**

- Research would receive an increase of 0.4% over FY 2013-14 for a total of \$64.7 billion.
- Development would see \$68 billion, an increase of 2.3% over FY 2013-14.
- The proposed FY 2014-15 NIH budget of \$30.4 billion would allow NIH to fund 372 more new and competing research grants than in FY 14 and would give most NIH institutes modest increases.
- The Health Resources and Services Administration (HRSA) would receive \$10.8 billion, an increase of \$1.8 billion over FY 2013-14.
- The Department of Energy Office of Science programs would see increases in basic energy sciences (5.5%); biological and environmental research (3%); nuclear physics (4.3%) and advanced scientific computing research (13.2%).
- The following directorates within NSF will receive the following:
  - Education and Human Resources (EHR) Directorate: 5.1% increase for a total of \$889 million.
  - Social, Behavioral and Economic Sciences directorate: 6% increase to \$272 million.
  - Engineering directorate: .8% increases to \$858 million
  - Modest funding decreases are proposed for NSF's biological sciences, computer and information science, and math & physical sciences directorates.
- DOD would receive a 0.1 percent decrease from FY 2013-14.
- The Department of Education would receive a \$1.3 billion increase (1.9%) over FY 2013-14. Priorities remain similar to those of FY 2013-14: equity and opportunity for all students; strengthening support for teachers and school leaders; making quality preschool available for all four-year olds; improving affordability, quality and success in postsecondary education; supporting education innovation, and making schools safer. Specific increases would go to international and foreign language studies programs (\$6M increase); the Institute of Education Sciences (\$11M increase) and the First in the World

Program (\$25M increase) and \$300M for a new program called Race to the Top centered on improving academic performance of students in high poverty schools.

- The SAMHSA budget includes an additional \$10 million to strengthen the behavioral health workforce by increasing the number of trained peers, recovery coaches, mental health/addiction specialists, prevention specialists, and pre-Master's level addiction counselors primarily working with youth between the ages of 16 to 25.

### **Summary**

With the stability of a two-year federal budget that authorizes a 4.5% increase and a 1% pay increase for federal employees, there is optimism in Washington. While there is no guarantee that it will be approved, the President's proposed budget for FY 2014-15 would increase another 4%. Congress has the capacity to approve changes in the budget that will be implemented next year. Continuing Resolutions, which we have been operating under for the last three years, have less capacity to implement new programs.

With the new areas of excellence and equipment investments made last year, and 67 new SDSU faculty coming on board, we can be cautiously optimistic as well.

*This information has been gathered from various sources including the American Association of State Colleges and Universities, The Chronicle of Higher Education, Congressional Budget Office and Office of Management and Budget.*

# GENERAL FUND BUDGET

## APPENDIX B

### FACILITIES

#### BACKGROUND

Historically, SDSU Research Foundation has acquired, constructed and managed real property adjacent to campus and beyond. The proposed property realignment plan implemented at the start of FY 2013-14 was designed to realign property holdings between Aztec Shops and SDSU Research Foundation, with the goal of best aligning each auxiliary's property portfolio with its mission. Our current real estate portfolio has been modified to better reflect our mission of supporting sponsored research activities.

The original FY 2013-14 budget was prepared with the assumption that the property realignment plan would be passed by the board at the May 2013 meeting and implemented in FY 2013-14. As anticipated, the research foundation's non-research connected commercial and student housing properties either have been or will be transferred to Aztec Shops; Aztec Shops has assumed all operating and management responsibilities and the associated debt of the transferred properties. The research foundation still continues to own, operate, manage, and lease a large portfolio of research-related property including:

*Alvarado Medical Center.* Nine buildings in the vicinity of Alvarado Hospital east of campus have been acquired over the years and provide an excellent space to house both projects and commercial tenants.

*Sky Park Court.* This office building in the Kearny Mesa area is currently fully occupied by research projects.

*City Heights.* Two buildings and a parking structure on El Cajon Blvd. provide an environment for community-oriented projects, non-profit commercial tenants, and SDSU programs.

*Camino del Rio North.* This building in Mission Valley currently houses a combination of SDSU programs and commercial tenants. The FY 2014-15 budget anticipates major changes in the tenant composition of this property. SDSU faculty have moved back to campus and the other tenants in the building are in the process of relocating to Alvarado. SDSURF is in the process of evaluating options related to the property.

*KPBS/Gateway.* This building located on the edge of campus is occupied by the research foundation central administrative staff and two major self-support programs: KPBS and the College of Extended Studies. The KPBS/Gateway building will transfer to the university upon full payment of related bond in 2023.

*Coastal Waters Lab.* Located on land that was previously part of the Naval Training Center in San Diego, this building and adjacent outdoor laboratories house the SDSU Coastal and Marine Institute Laboratory and the U.S. Geological Survey, a major tenant that occupies three fourths of the building.

*Bioscience Center.* The university and research foundation partnered to develop a novel approach to finance and construct this 30,000 square-foot research facility.

*Field Stations.* These include Sky Oaks, a multidisciplinary facility for studying the ecology, geology, soils, and hydrology of chaparral and other Mediterranean-type ecosystems; and the Santa Margarita Ecological Reserve (SMER), an outdoor research and education laboratory and classroom. SMER houses the first five miles of the Santa Margarita River, serves as the linkage between the Santa Ana and Palomar Mountains, and provides the habitat for some very unique and endangered species.

## RENTAL INCOME

Rental income is projected at \$5,769,000 which reflects a decrease of \$441,000 or 7.1% from the mid-year FY 2013-14 budget.

The research foundation does not receive rental income on all real property. For example, no income is realized from research foundation administrative offices and space used by research foundation projects on which full F&A cost recovery is received. Since the F&A cost rates include provisions for space usage, rent cannot be charged as a direct cost to projects with full F&A recovery.

## FACILITIES EXPENSE

Research foundation management is involved in a wide variety of activities related to real property. The facilities operations function includes the costs of maintaining and managing real and personal property owned or overseen by the research foundation.

### Facilities Operating Expenses (\$6,290,000)

This category includes all costs of the facilities operations function with the exception of capital and tenant improvements and debt service payments, which are shown separately. A breakdown is presented in the following chart.

<b>Facilities Operating Expenses</b>		
	Mid-Year FY 2013-14	Proposed FY 2014-15
Salaries	\$1,713,000	\$1,654,000
Administrative	105,000	100,000
Vehicles	50,000	46,000
Insurance	604,000	624,000
Maintenance	135,000	117,000
Utilities	1,136,000	1,112,000
Property Taxes	200,000	206,000
Contracted Services	879,000	885,000
Leased Space	555,000	604,000
University Services	662,000	833,000
Parking	109,000	109,000
	\$6,148,000	\$6,290,000



**Facilities Capital Improvements (\$292,000)**

Capital improvements are costs to upgrade the condition of buildings and their mechanical systems and the surrounding land area. Sufficient funds must be provided to correct deficiencies that detract from the appearance and/or performance of the facilities that could affect rental rates and marketability. For improvements over \$5,000, or below if clearly capital improvements, the cost is capitalized and amortized over the life of the improvement – generally five years.

**Facilities Tenant Improvements (\$421,000)**

This category represents costs to renovate the interiors of offices and suites for research foundation projects and commercial tenants. For improvements over \$5,000 the cost is capitalized and amortized over the life of the project – generally three years.

**Facilities Debt Service (\$3,537,000)**

This category represents annual principal and interest payments due on debt from real property financing.

<b>Summary of Debt Service</b>	
2002 Bond Issue	\$ 1,562,000
2010 SRB Bond Issue	546,000
Internal Financing	
Sky Park Court	187,000
6367 Alvarado Court	348,000
6386 Alvarado Court	236,000
333 E. 6th Street, IV	10,000
619 Heber, IV	12,000
3590 Camino del Rio	134,000
Bioscience Center Lease	502,000
	<hr/>
	<b><u><u>\$ 3,537,000</u></u></b>

## REVENUE AND EXPENSE BREAKDOWN FOR PROJECT, NON-PROJECT, AND HOUSING ACTIVITIES

Facilities Revenue and Expense has been broken out by Project Activity and Non-Project Activity. The purpose of this breakdown is to track net costs and income related to SDSU programs and those related to renting non-project space.

<b>Fiscal Year 2014-15</b>			
<b>Proposed Budget</b>	<b>Project Activity</b>	<b>Non-Project Activity</b>	<b>Total Facilities</b>
Revenue:			
Rental Income	\$ 810,000 *	\$ 3,705,000	\$ 4,515,000
Rental Income – University Paid	-	1,254,000	\$ 1,254,000
<b>Total Rental Income</b>	<b>810,000</b>	<b>4,959,000</b>	<b>\$ 5,769,000</b>
Operating Costs	4,392,000	1,898,000	\$ 6,290,000
Net Income (Loss) before Debt Service, Tenant and Capital Improvements	(3,582,000)	3,061,000	\$ (521,000)
Debt Service	2,080,000	1,457,000	\$ 3,537,000
Capital Improvements	130,000	162,000	\$ 292,000
Tenant Improvements	100,000	321,000	\$ 421,000
Net Income (Loss) after Debt Service, Tenant and Capital Improvements	<u>\$ (5,892,000) *</u>	<u>\$ 1,121,000</u>	<u>\$ (4,771,000)</u>

<b>Fiscal Year 2013-14</b>			
<b>Mid-Year Projection</b>	<b>Project Activity</b>	<b>Non-Project Activity</b>	<b>Total Facilities</b>
Revenue:			
Rental Income	\$ 842,000 *	\$ 3,933,000	\$ 4,775,000
Rental Income – University Paid	-	1,435,000	\$ 1,435,000
<b>Total Rental Income</b>	<b>842,000</b>	<b>5,368,000</b>	<b>\$ 6,210,000</b>
Operating Costs	4,152,000	1,996,000	\$ 6,148,000
Net Income (Loss) before Debt Service, Tenant and Capital Improvements	(3,310,000)	3,372,000	\$ 62,000
Debt Service	2,045,000	1,656,000	\$ 3,701,000
Capital Improvements	165,000	135,000	\$ 300,000
Tenant Improvements	172,000	330,000	\$ 502,000
Net Income (Loss) after Debt Service, Tenant and Capital Improvements	<u>\$ (5,692,000) *</u>	<u>\$ 1,251,000</u>	<u>\$ (4,441,000)</u>

\*SDSU Research Foundation does not record rental income on full F&A projects because rent is a component of F&A received. The above schedule does not include an allocation of rental income from F&A revenues.

Expenses were allocated as follows:

- **Operating Costs.** Operating costs were broken out as follows:
  - Certain costs that were 100% attributable to projects or non-projects were allocated accordingly. Thus the shuttle service, public safety reimbursement, and certain vehicle costs were allocated to project activity. Leasing commissions were allocated to non-project activity.
  - The remaining costs were analyzed to determine if the cost of supporting non-project and housing space was the same as that of supporting project space. The following services are provided to projects (but not housing or non-projects): extensive space layout and planning; furniture purchasing, moving, and repairing; replacing electrical cords and switches; handling spills - non-hazardous and some hazardous; and delivering copier paper. Management estimates that the time and costs to provide services to projects is 20% higher than the cost to provide services to non-projects. Therefore, an additional 20% of the salaries and fringe benefits were allocated to project activity.
  - After allocating the costs noted above, the remaining costs were allocated based upon square footage occupied.
- **Debt Service.** The cost of debt service was allocated based upon percentage of square footage occupied in a building with debt service.
- **Capital and Tenant Improvements.** This allocation was determined by the budgeted amount of expense and whether the improvement benefited any of the categories outlined above.

# GENERAL FUND BUDGET

## APPENDIX C

### INVESTMENTS

Funds for which the research foundation has investment responsibility have been classified as “endowment funds” and “working capital and other funds.” The board of directors, its investment committee, and research foundation management establish investment strategies and appoint and evaluate professional investment managers. Investment strategies are intended to give due consideration to preservation and growth of capital while maintaining an acceptable level of risk. The research foundation’s approach to investment management requires an ongoing review of both investment objectives and the performance of investment instruments and managers. Total investments under management are summarized below.

<b>Summary of Investments</b>			
<b>Market Value</b>			
(\$ in Thousands)			
<b>Endowment Funds</b>	<b>6/30/2012</b>	<b>6/30/2013</b>	<b>12/31/2013</b>
<b>Investment Pools</b>			
TCF Endowment Pool	\$ 13,942	\$ 15,436	\$ 16,879
Current Income	3,435	3,374	3,393
Gift Annuity	1,675	1,220	1,225
<b>Unpooled</b>	<b>2,348</b>	<b>393</b>	<b>405</b>
Subtotal	<u>21,400</u>	<u>20,423</u>	<u>21,902</u>
Fixed Income and Cash Equivalents	67,524	81,262	75,359 *
Real Property	48,175	46,829	47,886 **
Subtotal	<u>115,699</u>	<u>128,091</u>	<u>123,245</u>
Total	<u>\$ 137,099</u>	<u>\$ 148,514</u>	<u>\$ 145,147</u>

\* Includes \$15,185,000 of internal financing at 12/31/2013

\*\*Balance represents real property market value less external debt and deficit funds associated with properties.

As detailed in its investment policy, the research foundation has established both true and quasi-endowments for the benefit of university programs. The original principal and additional gifts to true endowments cannot be withdrawn. Those funds are to be held in perpetuity. Quasi-endowments are designated by the Board of Directors for specific purposes and are managed from an investment perspective as if they were true endowments while the board designation is in place.

The majority of endowments received by the university are given to The Campanile Foundation (TCF). As part of the financial services provided to TCF, the research foundation assists in the operation of the TCF endowment pool.

For its own endowments, the research foundation uses two endowment pools with different objectives. The current income pool maximizes income available for current use but does not protect purchasing power against inflation. The research foundation used its own balanced pool to protect against inflation until June 30, 2007. It was designed to maintain a balance between

long-term growth (generated by equity investments) and current income. Starting July 1, 2007, assets previously in the balanced pool were used to purchase units in TCF’s endowment pool—the pool that holds the great majority of the university’s permanently restricted endowments. No endowment fund balances were transferred to TCF—the research foundation decided to use TCF as its investment manager. The TCF endowment pool maintains a diversified asset mix just as the balance pool did. In that the central purpose of a true endowment is to provide support in perpetuity, this diversified approach is the investment option that best represents the research foundation’s overall investment philosophy and objectives. The table below shows the performance of the Campanile Pool.

<b>Endowment Performance as of 6/30/2013</b>				
	<b>Annualized Total Return</b>			
	<b>1 year</b>	<b>3 years</b>	<b>5 years</b>	<b>10 years</b>
<b>TCF Endowment Pool</b>	<b>11.9</b>	<b>10.6</b>	<b>5.5</b>	<b>7.4</b>
NACUBO Benchmark (\$100 to \$500 million)	11.9	10.2	4.0	7.6

The benchmark used is the annual survey performed by NACUBO (National Association of College and University Business Officers) and Commonfund, which includes investment results for over 850 colleges and universities. The benchmark average returns presented here correspond to the size of the two pools over time.

# GENERAL FUND BUDGET

## APPENDIX D

### RESERVES

Maintaining adequate reserves is critical to any business organization, especially for non-governmental organizations dependent on generating annual revenues to support their activities. Research foundation revenues are projected prior to the beginning of a fiscal year and are committed mainly for program support (operating) costs, facilities (space) costs, and university support activities. Operating reserves are necessary to provide working capital to carry on daily activities, to guard against a decrease in projected revenue or increase in projected expenditures, to cover possible unallowable costs for grants and contracts, and to cover over-expenditures of project activities.

Presented below is the projected reserve activity for FY 2014-15 which anticipates using \$2,000,000 from discretionary operating reserves to balance the FY 2014-15 budget.

	Established Reserves Balances				Projected Balance 6/30/2015
	Projected Balance 6/30/2014	Projected Activity			
		GF Allocation	Mkt Val Changes	Activity ④	
<b>Discretionary</b>					
Operating Reserves					
Income Equalization	500,000	-	-	-	500,000
Working Capital	1,652,000	(1,652,000)	-	-	-
Operating Contingency	1,183,000	(348,000)	-	-	835,000
Utilities	-	-	-	-	-
Facilities	1,160,000	-	-	-	1,160,000
Insurance	630,000	-	-	-	630,000
Debt Service	956,000	-	-	-	956,000
Quasi-Endowments					
General Fund	2,926,000	-	200,000 ①	(153,000)	2,973,000
Research Endowment	2,018,000	-	138,000 ①	(86,000)	2,070,000
Research Endowment Income	566,000	-	20,000 ②	(194,000)	392,000
	<u>11,591,000</u>	<u>(2,000,000)</u>	<u>358,000</u>	<u>(433,000)</u>	<u>9,516,000</u>
<b>Non-discretionary</b>					
Employee-Related					
Retiree Medical VEBA Trust	8,295,000	172,000	522,000 ③	(149,000)	8,840,000
Employee Fringe Benefits	1,454,000	-	11,000	-	1,465,000
Workers' Compensation Insurance	2,308,000	-	-	(124,000)	2,184,000
Unemployment Insurance	1,300,000	-	-	64,000	1,364,000
	<u>13,357,000</u>	<u>172,000</u>	<u>533,000</u>	<u>(209,000)</u>	<u>13,853,000</u>
	<u>24,948,000</u>	<u>(1,828,000)</u>	<u>891,000</u>	<u>(642,000)</u>	<u>23,369,000</u>

- ① Expected market value returns are based on the TCF-stated long-term return objective of the HEPI Index plus 515 basis points. The HEPI projection is 1.7% resulting in a total return of 6.85%
- ② Estimated returns represent the current yield on the current income pool of 3.5%
- ③ Projected change in market value of 6.4% which is the average return of the VEBA for the past 5 years ended April 2013
- ④ Projected transactions for FY 2014-15

The research foundation's reserves are categorized as discretionary (funds designated by the board for specific purposes) and non-discretionary (required by law or regulation). The components of each section and the established goal are presented below. Even though the research foundation is currently drawing from discretionary reserves to balance the general fund budget, it is management's intent to replenish the reserves as funding becomes available.

### Discretionary Funds

#### **Income Equalization (\$500,000)**

The budgeted amount for F&A cost recovery each year is only an estimate and represents approximately 60.2% of unrestricted revenue. Because of the nature of grant and contract activity, the amount actually recovered could be substantially above or below the budgeted amount.

Since the research foundation annually allocates, in advance, the total estimated revenues, this reserve is intended to be used to balance the budget in years when actual F&A cost recovery is less than projected.

The amount of the reserve requires a judgment decision based on management's ability to project F&A cost recovery. The current reserve amount is 3.1% of annual F&A cost recovery. A reasonable goal for this reserve is five percent of F&A cost recovery (\$795,000).

#### **Working Capital (\$0)**

The FY 2014-15 budget anticipates using \$1,652,000 from the working capital reserve.

*College and University Business Administration*, published by the American Council on Education, describes working capital as follows:

*“In the strictest definition, working capital equals current assets minus current liabilities; working capital is the resource available to keep operations running through the short term (less than one year). If an institution depends on resources outside of its working capital cycle to stay afloat, its survival is doubtful in the long term.”*

Currently, most universities must have millions of dollars of cash segregated to provide the cash flow necessary to manage grants and contracts. Funding agencies use a variety of methods to reimburse universities for costs incurred on grants and contracts. The more common methods are cost reimbursement, letter of credit and advance payment. The letter of credit and advance payment methods are preferred and are intended to provide cash as it is needed to pay for costs when grant expenditures are made. The cost reimbursement method is the most challenging in that grantees advance payments from their monies and subsequently bill the funding agency.

Using the cost reimbursement method, the time frame between disbursements of cash for costs incurred and receipts of cash from the funding agencies averages 90 days and can take as long as nine months. This time lag requires grantees to have substantial monies set aside as working capital to administer cost reimbursable grants and contracts. Most state and local government agencies also use the cost reimbursement method. Historically, the research foundation's outstanding receivables on sponsored programs average \$25 million at any point in time.

More often, board-designated funds, Campanile Foundation funds and self-support programs cash balances are used to provide cash as needed for operations. If these cash balances were not available, the research foundation would need to borrow from its bank line of credit and would incur significant interest expense every year.

After a careful review of current conditions regarding financing grants and contracts, the goal for this reserve has been established at five percent of unexpended grant and contract awards (work-in-process), to provide for cash flow requirements. Based on this formula, the reserve should have a current balance of \$4,906,000.

### **Operating Contingency (\$835,000)**

The FY 2014-15 budget anticipates using \$348,000 from the operating contingency reserve. This reserve pertains mainly to potential disallowances on grants and contracts and to other general operating contingencies. Despite the best efforts, audit disallowances are a part of administering grants and contracts.

The size of the allowance requires a judgment decision based on the following:

- Volume of grants and contract activity
- Time between audits
- Philosophy regarding risk taking (i.e., fiscal watchdog or facilitator)
- Competency of staff and adequacy of internal controls
- Administrative resources devoted to administration of grants and contracts.

The level of this reserve should be equal to one percent of annual grant and contract expenditures. The goal for this reserve is \$999,000.

### **Utilities (\$0)**

This reserve was established to help manage uncontrollable fluctuations in the utilities market from year to year. The goal for the reserve was established at 35% of the facilities department annual utilities budget. Therefore, the goal for FY 2014-15 is \$389,000. The amount of the reserve is evaluated each year depending on current utilities market issues.

### **Facilities (\$1,160,000)**

This reserve was established to help manage unexpected major repairs & maintenance on research foundation properties. Based on industry norms, the goal for the reserve was established at \$1,500,000.

### **Insurance (\$630,000)**

The insurance reserve was established in FY 2012-13 in anticipation of a change in the required deductibles on research foundation's insurance programs. Management is working to establish the ultimate goal for this reserve. The primary source of funding of this reserve will be funds recovered from insurance relating to claims in prior budget periods.

### **Debt Service (\$956,000)**

The debt service reserve was established to assist with future debt service payments if needed or to be used in a scenario where the "make whole" provision of the taxable bonds is triggered (i.e. in the event of a sale of one of the associated properties). The goal of the reserve is equal to one year debt service on the bond issues (\$2,110,000).



**Quasi-Endowment/General Fund (\$2,973,000)**

This reserve was established to accumulate unrestricted funds to serve as quasi-endowment funds. The objective is to increase the principal over the years to a level that will produce annual income to support research foundation operations and lessen dependence on F&A cost recovery. Monies in this reserve are invested as a quasi-endowment fund in The Campanile Foundation's endowment pool.

**Quasi-Endowment/Research Endowment (\$2,070,000)**

In May 1983, the board passed a resolution to assume a ten-year commitment not to exceed \$100,000 per year, providing funds are available, for the purpose of replacing and upgrading research equipment. In 1988, the use of interest from the endowment was expanded to include assistance for joint doctoral students.

In February 1992, the guidelines for this endowment were revised and the name changed to the Research Endowment due to the continuing state budget crisis and its potential effect on sponsored research programs.

The board also approved a resolution to expand the purposes of the endowment to include general support of the research program and to increase the annual allocation from \$100,000 to \$200,000, subject to availability of funds, and to increase the endowment principal from \$1,000,000 to \$2,000,000. Currently, the contributed capital is \$2,000,000. The projected year-end balance of \$2,070,000 reflects prior years' market declines and income distributions.

This reserve is also invested in The Campanile Foundation's endowment pool because of the long-term commitment of the funds.

**Research Endowment Income (\$392,000)**

The income distributions from the Quasi-Endowment/Research Endowment are deposited in this reserve. The funds are invested to preserve principal balance in anticipation of current expenditures related to research. The \$194,000 noted in the activity column represents a net amount of \$86,000 distributed from the research endowment and an estimated \$280,000 utilized in support of research. These funds have been committed as cost-sharing for anticipated training grants.

**Non-discretionary Funds****Retiree Medical VEBA Trust (\$8,840,000)**

The overall projected increase in the trust value is due to both actuarially calculated contributions from the General Fund, KPBS, and Extended Studies and an increase in market value.

A policy approved by the board in 1984 provides health insurance for retirees who have met minimum requirements for age and years of service. Allocations to Retirees Medical Insurance Trust are made as necessary based on biannual actuarial studies to insure that the value of trust assets is maintained at a level necessary to fund required benefits. The value of trust assets will grow as the size of the research foundation staff increases and as the number of retirees receiving benefits increases.

**Employee Fringe Benefits (\$1,454,000)**

This reserve provides funding for employee vacation and sick leave benefits. Although vacation benefit costs are funded from the annual operating budget as employees take vacation, generally accepted accounting principles (GAAP) require employers to accrue and fund earned and unused vacation benefits. The potential liability amount is determined at each fiscal year end. In February 1998, the board approved a sick leave benefit program intended to provide benefits comparable to those that are available to university employees. The research foundation funds an actuarial determined amount each year for the potential payoff at retirement.

**Workers' Compensation Insurance (\$2,308,000)**

Annually, as part of the financial statement audit, management reviews reserve levels and correspondingly modifies the fringe benefits/workers' compensation rate. Effective July 1, 2003, the research foundation instituted a high-deductible workers' compensation plan. According to the plan and the stop-loss insurance purchased, the research foundation is only liable for individual claims up to \$250,000 per claim and total annual claims up to \$2,700,000. The amount of the reserve is based upon management's estimate of potential claims based upon advice from an actuary and overall claims experience. Management will annually obtain an updated report from an actuary regarding recommended reserve levels.

**Unemployment Insurance (\$1,259,000)**

The benefit rate charged is monitored annually so that the interest earned on reserves plus premiums charged to employees offset the claims and expenses paid during the same time period. The withholding amount is anticipated to remain at an amount that will rebuild the fund over time.

In 1985, the board approved the establishment of an unemployment self-insurance program (UEI) that would replace the research foundation's participation in California's State Unemployment Program. The goal was to reduce catastrophic insurance coverage premiums by funding a certain level of unemployment claims internally. Once the desired reserve level was reached years ago, the rate charged has always been lower than what the State of California would have been charging.

**Unfunded Obligations**

SDSU Research Foundation has a total of \$10 million in unfunded obligations (funds spent into deficit position) within its board-designated and property funds related to various strategic land acquisitions, the redevelopment project, sorority row project, and the fraternity row construction defects lawsuit. Designated funds and property acquisitions are controlled by the board of directors and represent assets dedicated to particular needs, obligations, or programs. Because the expenditures have already been made, these obligations are reported as deficit fund balances in specific designated funds or as liabilities in property funds. It is anticipated that the ultimate source of funds to repay these particular deficits will be the underlying market value of real property owned by the research foundation.

In addition, the research foundation has approximately \$2.5 million in facilities capital and tenant improvements that will be amortized through FY 2017-18 via the general fund budget.