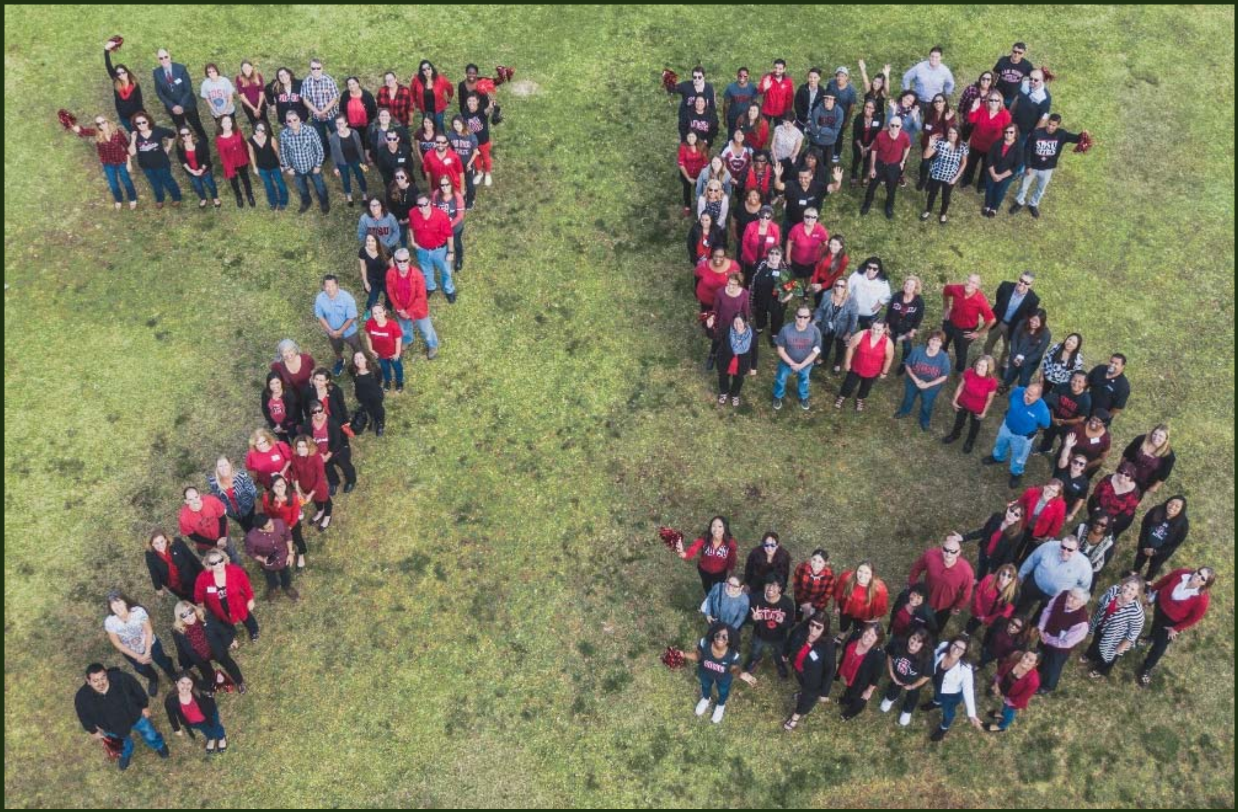
San Diego State University
Research Foundation



General Fund Budget
Fiscal Year 2018-19

Cover photo:
SDSU Research Foundation staff gather to celebrate 75 years of service to SDSU

Credit: Kingsley Ramos

This proposed FY 2018-19 budget was approved by the SDSU Research Foundation board of directors on May 4, 2018 without any changes.

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MESSAGE FROM THE EXECUTIVE DIRECTOR

I am pleased to present the Fiscal Year 2018-19 proposed budget of $30,557,000 on behalf of our management team. The year 2018 marks the 75th anniversary of SDSU Research Foundation. This budget reflects our ongoing mission to serve SDSU and to support SDSU's researchers.

Our revenue projections remain conservative as we navigate an unpredictable federal budget environment. Our priority remains balancing the goals of streamlining processes and identifying efficiencies to reduce expenditures, and investing strategically in our staff and systems to enhance services.

Budget Highlights

- No use of reserves is anticipated to balance the FY 2018-19 budget
- Reduction of the waiver of research compliance reimbursements from $1,000,000 to $750,000.
- F&A earnings on grants and contracts is projected to be down by $50,000
- Increase in investment income due to short-term interest rates increasing over the last year, a modification in investment strategy, and reductions in fees.
- New commercial tenants and adjustments to lease rates resulting in higher facilities rents
- Consolidation of shipping and receiving functions with SDSU will generate savings of $147,000 in FY 2018-19, streamline operations for both units and enhance services
- Medical/dental benefit increases will be zero for the first six months and capped at a maximum of 8% for the second half of the year under a newly negotiated agreement
- Salary budget includes 3% for compensation increases comparable to the university
- Research Support Funds (RSF) have been budgeted at 100 percent of the RSF formula.

Federal Budget Impacts. The federal budget directly impacts our resources; 74% of our F&A revenue came from federal sponsors in FY 2016-17. After a series of continuing resolutions, Congress reached agreement on a bill that funds the government through September 30 and includes increases for NIH ($3 billion) and NSF ($295 million), our primary federal funding agencies. The bill continues to block attempts to cap NIH F&A reimbursement.

Reasons for Caution

Despite this good news regarding the current budget year, much is still unknown, as Congress has just begun working on the FY19 funding bills and the administration and Congress remain divided. The government will likely operate on continuing resolutions until after the November elections, adding further uncertainty for federal agencies and possible delays in new awards.

The uncertainty in Washington has already impacted the research foundation. For example:

- **Proposals/awards are down**. The first nine months of the year show a *decline* in numbers and dollars for pending proposals and awards received. Of note is a $1.4 million reduction in F&A awarded compared with the first nine months of the prior year.

- **NSF awards**. Last year's spike in NSF awards was welcome, but there has been a noticeable dip in NSF awards during the first three quarters of FY 2017-18.
- **NIH awards.** While the number of NIH awards has remained steady, there are a number of NIH proposals still awaiting funding decisions.

Despite these cautionary notes, the following positive indicators provide **reason for optimism**:

Proposal submissions level. SDSU faculty continue to submit proposals at the same pace they did last year and the F&A amount associated with pending proposals is higher by $1.6 million.

NIH and NSF funding potential. The boost in funding for NIH and NSF should result in an increase in awards from these agencies during the next two quarters as they move to allocate their FY 2017-18 budgets.

University investments. The university continues its commitment to and support of research. This year's investment of $2.9 million represents a $900,000 increase over FY 2016-17 and supported: Areas of Excellence, Grant and Research Enterprise Writing (GREW) Institute; University Graduate Fellowships, Student Research Symposium, Summer Undergraduate Research Awards, Research Equipment and Facilities Improvement Grants; and other direct support of faculty research.

GREW Success. Ninety-three percent of GREW participants have submitted proposals. Their 535 proposals resulted in 171 awards totaling $19.6 million and generating $5 million in F&A.

University recruitments. The university continues to invest in new faculty with 92 searches underway. An endowed chair has been filled in the BioScience Center, and a senior scientist has been recruited in psychology. These researchers have impressive records of publication and research, and will bring existing grant portfolios to SDSU.

Active Researchers. The number of grant-supported faculty has increased for the second consecutive year with 345 active principal investigators in 2018 compared to 324 in 2017.

Moving Forward

On behalf of the entire research foundation, we extend a special thanks to President Sally Roush for her leadership and support of our organization and SDSU researchers this past year. Her familiarity with the research foundation, knowledge of the research mission and community, and her thoughtful and collegial approach have benefitted us all.

Management looks forward to working with our board, current university administrators, new deans and President de la Torre to support research and maintain fiscal stability.

Thanks to our research foundation staff for their impressive work ethic and dedication to our organization, our researchers and SDSU.

Sincerely,

Michèle G. Goetz
Associate Vice President and Executive Director April 9, 2018

GENERAL FUND BUDGET
OVERVIEW

ABOUT THE RESEARCH FOUNDATON

Incorporated in 1943, SDSU Research Foundation (SDSURF) 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 in two sections:

1. The Summary below provides an overview of major General Fund Budget categories (Schedule 1).
2. The narrative detail follows Schedule 1 and provides further explanation of the line items in the General Fund Budget.

SUMMARY

Total research foundation revenue projected for FY 2018-19 ($179,400,000) reflects an increase of $3,982,000 or 2.3% over FY 2017-18 mid-year projections and an increase of $647,000 or 0.4% compared to FY 2016-17 actuals. Total revenues include unrestricted (the portion under the control of the SDSU Research Foundation board that is used to run our business) and restricted (the major portion of which is the direct costs used to support research and other activities).

Restricted revenue – the projected amount of restricted revenue of $149,000,000 includes grants and contracts (direct cost reimbursements), self-support programs (funds held in trust for the College of Extended Studies and KPBS) and contributions to the university for KPBS. While these restricted revenues are included in the research foundation's financial statements, they are not part of the general fund budget. Additionally, SDSURF handles the business operations for The Campanile Foundation whose revenues are estimated to be $47 million annually.

Overall, FY 2018-19 unrestricted revenue is expected to increase by $648,000 or 2.2% from FY 2017-18 mid-year projections* and *$701,796 or 2.4% from FY 2016-17 actuals.

Unrestricted revenue – the projected amount of $30,557,000 makes up the unrestricted portion of total revenues generated by research foundation activities including:

- Grants and contracts which represents reimbursement for university and research foundation facilities and administrative (F&A) costs related to research
- Self-support programs which includes the research foundation's administrative fee

- Rents for properties owned by SDSURF
- Technology Transfer Office (TTO) Revenue which includes royalties and legal reimbursements
- Investments

Basic Support. Basic Support is projected to increase by $427,000 or 2.8% from the FY 2017-18 mid-year projection and $1,365,440 or 9.4%, from the FY 2016-17 actuals. The increase over the mid-year 2017-18 projection is due to an increase in salaries and benefits for planned merit increases offset by various expense reductions.

Allocations. Allocations for Enhanced Program Support increased by $125,000 or 3.2% from the FY 2017-18 mid-year budget but decreased by $83,269 or 2.0% from 2016-17 actuals. Research Support Funds continue to be budgeted at 100% of formula. The university will continue to waive a portion of the Research Compliance chargebacks; however, the waiver was reduced from $1.0 million in the FY 2017-18 mid-year budget and 2016-17 actuals to $750,000 in the proposed FY 2018-19 budget.

Reserves. The budget shows a net of $0 coming from reserves to balance the FY 2018-19 budget reflecting the continuing progress SDSURF has made towards balancing the budget over the last several years.

Schedule 1

General Fund Budget 2018-19

	FY 2016-17 Actual	FY 2017-18 Original	FY 2017-18 Mid-Year	FY 2018-19 Proposed
SOURCE OF FUNDS				
Unrestricted Revenue:				
Grants & Contracts F&A	19,631,760	19,800,000	19,800,000	19,750,000
Self-Support Programs Fees	3,113,202	3,268,000	3,000,000	3,000,000
Facilities Rents	5,627,390	5,696,000	5,720,000	6,178,000
TTO Revenue	152,698	106,000	106,000	106,000
Investments	1,330,154	1,145,000	1,283,000	1,523,000
Total Unrestricted Revenue	**29,855,204**	**30,015,000**	**29,909,000**	**30,557,000**
USE OF FUNDS				
Basic Support				
Administration & Operations	14,553,560	15,500,000	15,492,000	15,919,000
Facilities Expenses				
Facilities Operating Expenses	6,167,649	6,692,000	6,665,000	6,241,000
Capital Improvements	281,474	235,000	248,000	338,000
Tenant Improvements	475,414	315,000	315,000	748,000
Debt Service Payments	3,281,487	3,287,000	3,277,000	3,274,000
Utilities Reserve	200,000	-	-	-
Total Facilities Expenses	10,406,024	10,529,000	10,505,000	10,601,000
Total Basic Support and Facilities Expenses	**24,959,584**	**26,029,000**	**25,997,000**	**26,520,000**
Net Remaining Funds	4,895,620	3,986,000	3,912,000	4,037,000
Allocations for Enhanced Program Support:				
Direct Support of Research:				
Bad Debt Allocation	30,000	-	-	-
Research Endowment Contribution	25,000	-	-	-
Research Support Funds	2,722,829	2,781,000	2,746,000	2,590,000
University Grants Program	92,256	92,000	92,000	92,000
BioScience Center Development	5,266	6,000	6,000	-
Biology PI Administrative Support	90,250	94,000	94,000	94,000
	2,965,601	2,973,000	2,938,000	2,776,000
Support of Research Infrastructure:				
Project Facilities and Equipment Support	450,000	406,000	406,000	418,000
Research Support - Library	50,000	50,000	50,000	50,000
Research Compliance	1,150,910	1,215,000	1,176,000	1,211,000
Waiver of Certain Research Compliance Allocations	(1,000,000)	(1,000,000)	(1,000,000)	(750,000)
University Research Space	67,118	80,000	80,000	70,000
	718,028	751,000	712,000	999,000
Investment in Enhanced Service Initiatives:				
Systems Infrastructure	275,000	100,000	100,000	100,000
Washington D. C. Representation	162,000	162,000	162,000	162,000
	437,000	262,000	262,000	262,000
Total Allocations for Enhanced Program Support	4,120,629	3,986,000	3,912,000	4,037,000
Total Basic Support and Allocations	**29,080,213**	**30,015,000**	**29,909,000**	**30,557,000**
TOTAL SOURCE OF FUNDS	**29,855,204**	**30,015,000**	**29,909,000**	**30,557,000**
TOTAL USE OF FUNDS	**29,080,213**	**30,015,000**	**29,909,000**	**30,557,000**
Net Funds to (from) Reserves	**774,991**	**-**	**-**	**-**

GENERAL FUND BUDGET
DETAIL

SOURCE OF FUNDS

Unrestricted Revenue

Grants & Contracts – Facilities & Administrative (F&A) Cost Recovery ($19,750,000)

The major source of unrestricted revenue is ***F&A cost recovery*** from sponsored research programs. Projected F&A cost recovery represents 64.6% of total unrestricted monies available. Although the federal negotiated F&A rate for research is 50.5% of modified total direct costs, many awards receive a lower rate, and certain categories of expense may be excluded when calculating the rate in accordance with federal rules. The recovery rate to date for FY 2017-18 is projected to be 27.1% of modified total direct costs or 19.1% of all direct expenditures.

Proposed F&A for FY 2018-19 ($19,750,000) reflects a decrease of $50,000 or 0.3% over the FY 2017-18 mid-year projection and an increase of $118,240 or 0.6% compared to FY 2016-17 actuals. The decrease for traditional F&A is actually $150,000 but is offset by an increase in the F&A related to the SDSU Georgia project of $100,000. The reduction in traditional F&A results from review of proposals and awards year-to-date as of March 31, 2018 compared to prior year at March 31, 2017. With the budget uncertainty in Washington, agencies may have been holding on to some of their funds until the budget was passed on March 23, 2018. We are hopeful that the last quarter of FY 2017-18 will see a significant up-tick in awards.

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 2, page 7), Work in Process (Schedule 3, page 8), Spending Trends (Schedule 4, page 9), and F&A Cost Recovery (Schedule 5, page 10).

Proposals Submitted and Awards Received

The dollar amount of awards for the first nine months of FY 2017-18 has decreased from the same time last year. Originally, we projected total awards for FY 2017-18 will range between $130 to $137 million; however, the lack of a federal budget and the use of short-term continuing resolutions appears to have slowed the issuance of awards from federal agencies. We continue to monitor federal developments closely, but are now projecting the low end of the range could drop to $125 million. For FY 2018-19, our projection for awards ranges between $120 million to $130 million but is highly dependent upon the federal budget and the stability of funding.

Proposals submitted have decreased for this period (number of proposals submitted, dollar and amounts proposed) compared to the first nine months of the prior fiscal year. The number of proposals has only decreased by one, but the dollar amount proposed has decreased by $4.9 million. Proposals pending, which are those that have been submitted but not yet evaluated by the funding agencies, are down in number (27), down in the dollar amount proposed ($148,000) but up in the F&A pending by $1.6 million. We continue to carefully monitor the federal outlook for funding changes and hopefully more budget stability.

Schedule 2 provides a summary of FY 2016-17 proposals and awards and a comparison of actual numbers for the first nine months of the fiscal year through March 2018 as compared to March 2017.

Schedule 2

Proposals Submitted

	Actual	July 1 - March 31		Increase	% Increase
	FY 2016-17	FY 2017-18	FY 2016-17	(Decrease)	(Decrease)
# Proposals Submitted	1,194	823	824	(1)	(0.1%)
$ Amount Proposed	237,284,730	149,216,813	154,116,089	(4,889,276)	(3.2%)
$ F&A Costs Proposed	44,494,081	31,015,806	30,109,591	906,215	3.0%
% F&A Costs Awarded/Direct Costs	23.1%	26.2%	24.3%		

Proposals Pending

	Actual	July 1 - March 31		Increase	% Increase
	FY 2016-17	FY 2017-18	FY 2016-17	(Decrease)	(Decrease)
# of Pending Proposals	562	487	514	(27)	(5.3%)
$ Amount Pending	127,006,548	97,247,359	97,395,440	(148,081)	(0.2%)
$ F&A Costs Pending	27,632,744	23,437,256	21,836,545	1,600,711	7.3%
% F&A Costs Awarded/Direct Costs	27.8%	31.8%	28.9%		

Awards Received

	Actual	July 1 - March 31		Increase	% Increase
	FY 2016-17	FY 2017-18	FY 2016-17	(Decrease)	(Decrease)
# Awards Received	783	494	529	(35)	(6.6%)
$ Awards Received	134,264,146	82,229,359	96,667,036	(14,437,677)	(14.9%)
$ F&A Costs Awarded	20,148,110	13,663,145	15,060,937	(1,397,792)	(9.3%)
% F&A Costs Awarded/Direct Costs	17.7%	19.9%	18.5%		

Note: Supplements are included in amounts above.

Work in Process

Work in Process (WIP), which reflects the amount of direct costs and F&A awarded but not yet spent is another important indicator. As noted below in Schedule 3, there are fewer dollars in WIP at this time than in the prior year – a likely result of the decreased number of awards in FY 2017-18. We are hopeful for an increase in awards in the last quarter of FY 2017-18 and the first quarter of FY 2018-19 which would have a positive impact on WIP.

Schedule 3

Work in Process

	YTD FY 2017-18 March 31, 2018 TOTAL	YTD FY 2016-17 March 31, 2017 TOTAL	$ Increase (Decrease)	% Increase (Decrease)
Salaries	27,189,398	28,074,635	(885,237)	(3.2%)
Benefits	11,295,955	10,646,429	649,526	6.1%
Other Direct	19,608,643	24,297,739	(4,689,096)	(19.3%)
MTDC Subtotal	58,093,996	63,018,803	(4,924,807)	(7.8%)
Equipment	1,313,109	2,263,151	(950,042)	(42.0%)
Student Support	4,502,564	5,502,953	(1,000,389)	(18.2%)
Subcontracts	11,622,674	11,484,144	138,530	1.2%
Other Direct	868,381	353,886	514,495	145.4%
Other Subtotal	18,306,728	19,604,134	(1,297,406)	(6.6%)
Total Direct	76,400,724	82,622,937	(6,222,213)	(7.5%)
F&A Costs	16,493,487	17,951,589	(1,458,102)	(8.1%)
Total Costs	92,894,211	100,574,526	(7,680,315)	(7.6%)
F&A Costs/MTDC	28.4%	28.5%		

Spending Trends

F&A is earned when principal investigators/project directors actually spend their awarded funds. The expected direct cost expenditure level for FY 2018-19 is dependent on the submission of proposals, receipt of awards, and the spending schedule related to the awards.

Schedule 4 provides a comparison for the nine months ending March 31, 2018 to those on March 31, 2017. Spending has increased over prior years by $766,985 or 1.1%; however, F&A is down by $339,893 the first nine months of FY 2017-18 (25.7%) compared to the first nine months of FY 2016-17 (27.1%).

Schedule 4

Spending Trends

	YTD FY 2017-18 March 31, 2018 TOTAL	YTD FY 2016-17 March 31, 2017 TOTAL	$ Increase (Decrease)	% Increase (Decrease)
Salaries	29,234,025	29,053,921	180,104	0.6%
Benefits	8,912,849	8,829,433	83,416	0.9%
Other Direct	14,012,186	12,988,181	1,024,005	7.9%
MTDC Subtotal	52,159,060	50,871,535	1,287,525	2.5%
Equipment	1,649,506	1,676,940	(27,434)	(1.6%)
Student Support	4,621,563	4,846,217	(224,654)	(4.6%)
Subcontracts	7,932,287	7,874,522	57,765	0.7%
Other Direct	3,825,942	4,152,159	(326,217)	(7.9%)
Other Subtotal	18,029,298	18,549,838	(520,540)	(2.8%)
Total Direct	70,188,358	69,421,373	766,985	1.1%
F&A Costs	13,428,022	13,767,915	(339,893)	(2.5%)
Total Costs	83,616,380	83,189,288	427,092	0.5%
F&A Costs/MTDC	25.7%	27.1%		

F&A Cost Recovery Percentages

The effective rate of Facilities and Administrative (F&A) cost recoveries is an important measure in projecting revenue for FY 2018-19. The research foundation's negotiated cost recovery rate for FY 2018-19 is 50.5%. The effective rates for the past nine years and projections for FY 2017-18 and FY 2018-19 are shown in ***Schedule 5***. The difference between the negotiated rate and effective rate is a result of several factors including the fact that not all sponsors honor the negotiated federal rate.

Schedule 5

Sponsored Program Expenditures and F&A Effective Cost Recovery Rates

Fiscal Year	Total Costs	MTDC	Other *	F&A Costs	F&A Rate Effective Rate MTDC	F&A Effective Rate TDCO
2008-09***	119,238,251	73,734,590	26,983,145	18,520,516	25.1%	18.4%
2009-10***	126,100,292	78,003,589	27,361,098	20,735,605	26.5%	19.7%
2010-11***	135,239,456	82,360,529	30,531,222	22,347,705	27.1%	19.8%
2011-12***	122,853,501	76,722,184	26,173,745	19,957,572	26.0%	19.4%
2012-13***	108,364,049	68,307,579	22,092,681	17,963,789	26.3%	19.9%
2013-14***	106,609,049	65,659,861	23,820,251	17,128,937	26.1%	19.1%
2014-15	106,339,953	67,697,355	21,441,712	17,200,886	25.4%	19.3%
2015-16	113,912,239	69,139,826	25,564,223	19,208,190	27.8%	20.3%
2016-17	115,485,492	72,230,170	23,623,562	19,631,760	27.2%	20.5%
2017-18 **	118,800,000	73,204,000	25,796,000	19,800,000	27.0%	20.0%
2018-19**	118,500,000	73,020,000	25,750,000	19,750,000	27.0%	20.0%

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

Self-Support Programs Fees ($3,000,000)

Self-Support Programs Fees for FY 2018-19 ($3,000,000) is projected to be the same as the FY 2017-18 mid-year projection and to decrease by $113,202 or 3.6% compared to FY 2016-17 actuals. Self-support programs fees are earned on expenditures for programs in the College of Extended Studies (CES), 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. The KPBS MOU agreement has an annual escalation percentage of 3.0%; however, this increase is offset by the projected reduction in fees for CES due to their decreased volume of activity.

Rents ($6,178,000)

Total Rents for FY 2018-19 ($6,178,000) reflects an increase of $458,000 or 8.0% over the FY 2017-18 mid-year projection and an increase of $550,610 or 9.8% compared to FY 2016-17 actuals. See ***Appendix A*** (page 20) for further detail. These rents are budgeted as a direct cost from grants and contracts programs where full F&A costs are not recovered and revenues collected from commercial and university sources.

Technology Transfer Office (TTO) Revenue ($106,000)

Total TTO Revenue for FY 2018-19 ($106,000) is the same as the FY 2017-18 mid-year projection and a decrease of $46,698 or 30.6% compared to FY 2016-17 actuals. The FY 2016-17 actuals were higher due to a final periodic license fee payment, which reimbursed a significant sum of related patent maintenance fees. The research foundation earns royalty income from the sale of each product or service licensed under specific copyright or patent agreements. Net royalties are allocated to the inventors, the university, and the research foundation. The revenue earned in this category represents the research foundation's 17.0% share of royalties and anticipated legal reimbursements. Fluctuations in TTO revenue received by the research foundation are primarily caused by fluctuations in legal expense reimbursements, which are distributed 100% to the research foundation.

Investments ($1,523,000)

Investment Income for FY 2018-19 ($1,523,000) reflects an increase of $240,000 or 18.7% over the FY 2017-18 mid-year projection and an increase of $192,846 or 14.5% compared to FY 2016-17 actuals. The increase in investment income is due to short-term interest rates increasing over the last year, a modification in investment strategy and reduction in investment management fees. 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.

USE OF FUNDS

Basic Support

Administration & Operations ($15,919,000)

Administration and Operations Expenses for FY 2018-19 ($15,919,000) reflect an increase of $427,000 or 2.8% over the FY 2017-18 mid-year projection and an increase of $1,365,440 or 9.4% compared to FY 2016-17 actuals.

Administration and operations costs cover all 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 comply with SDSU policies and procedures 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 procedures to properly manage and account for all funds and other assets under our care, custody, and control.

Schedule 6 provides a summary of general administration and operations by expense type.

Schedule 6

Administration & Operations by Expense Type

	Actual		Original		Mid-year		Proposed		Proposed compared to Mid-year FY 2017-18	
	FY 2016-17	% of Total	FY 2017-18	% of Total	FY 2017-18	% of Total	FY 2018-19	% of Total	$ Increase (Decrease)	% Increase (Decrease)
Personnel Costs:										
Salaries	8,891,920	61.1%	9,565,000	61.7%	9,727,000	62.8%	9,966,000	62.6%	239,000	2.5%
Benefits *	3,239,406	22.3%	3,772,000	24.3%	3,580,000	23.1%	3,809,000	23.9%	229,000	6.4%
	12,131,326	83.4%	13,337,000	86.0%	13,307,000	85.9%	13,775,000	86.5%	468,000	3.5%
Legal	427,815	2.9%	295,000	1.9%	395,000	2.5%	379,000	2.4%	(16,000)	(4.1%)
Insurance	70,840	0.5%	111,000	0.7%	96,000	0.6%	87,000	0.5%	(9,000)	(9.4%)
Supplies	53,688	0.4%	66,000	0.4%	64,000	0.4%	61,000	0.4%	(3,000)	(4.7%)
Equipment	98,078	0.7%	23,000	0.1%	14,000	0.1%	61,000	0.4%	47,000	335.7%
Travel	72,279	0.5%	92,000	0.6%	83,000	0.5%	98,000	0.6%	15,000	18.1%
Contracted Services **	1,040,038	7.1%	885,000	5.7%	864,000	5.6%	763,000	4.8%	(101,000)	(11.7%)
Audit	288,028	2.0%	292,000	1.9%	276,000	1.8%	291,000	1.8%	15,000	5.4%
Other ***	371,468	2.6%	399,000	2.6%	393,000	2.5%	404,000	2.5%	11,000	2.8%
	2,422,234	16.6%	2,163,000	14.0%	2,185,000	14.1%	1,144,000	13.5%	(41,000)	(1.9%)
	14,553,560	100.0%	15,500,000	100.0%	15,492,000	100.0%	15,919,000	100.0%	427,000	2.8%

** Retiree medical is included in this line.*

*** Contracted services include contracts for computer maintenance, background checks, recruiting, and other consultant services.*

**** Other operating costs include HR recruitment fees including one-time relocation costs, telephone, postage, duplicating, printing, educational reimbursements, professional development, publications, computer supplies and software.*

The most significant change in the budget relates to salaries and benefits, which totals $13,775,000, reflecting an increase of $239,000 in salaries and $229,000 in benefits for a total increase of $468,000 or 3.5% over the mid-year projection due to the following:

- **Salaries** budget totals $9,966,000 reflecting an increase of $239,000 or 2.5% over mid-year FY 2017-18 projection:
  - $150,000 of the increase relates to the full year of merits provided to staff effective January 1, 2018. The impact to the FY 2017-18 budget was only half of the overall merit increase since the effective date of the increase was six months into the year. SDSU typically provides their increases effective July 1st of each year. However, effective January 1, 2014, SDSURF moved to a January 1st effective date as a cost-savings measure
  - $156,000 of the increase relates to merits anticipated to be provided to staff effective January 1, 2019 with the following justification:
    - SDSURF provides salary and benefits comparable to the university as required by Title 5, Section 42405 of the California Code of Regulations.
    - SDSURF and university employees often work very closely together; not to provide similar wage increases to SDSURF staff and university staff could be perceived as an equity issue.
    - The research foundation has consistently mirrored the university merit pools
  - $80,000 of the increase is due to the anticipated hiring of a new full-time Director of Sponsored Research Advancement (SRAD) reporting to the Vice President for Research. This new position was approved as part of the FY 2017-18 budget process but has not yet been filled; SRAD has been backfilling the position with a part-time employee. This new position will perform the following functions:
    - Co-leadership of the Grant and Research Enterprise Writing (GREW) program – a mentoring program for early and mid-career faculty focusing on grant writing and proposal development
    - Assist with the development of new programs to enhance the competitiveness of graduate students in securing fellowships to support their Ph.D. programs
    - Development of the university's federal/state/local research agenda including developing teams and writing proposals in support of federal initiatives for innovation
    - Identification and development of new funding opportunities for the university in with a focus on coordination of large multi-investigator, multi-disciplinary, multi-institutional research proposals
  - $147,000 represents a decrease that offset the other increases noted above due to savings from the consolidation of Shipping and Receiving with the university.
- **Benefits** budget totals $3,809,000, reflecting an increase of $229,000 or 6.4% from the mid-year budget projection due to the anticipated increase in the cost of medical benefits and the increase in salaries, of which benefits are a percentage. Effective January 1, 2018, SDSURF was able to negotiate the annual renewal of medical benefits

at no increased cost for calendar year 2018. As part of the agreement, the medical insurance carrier agreed to a maximum 8.0% cost increase for calendar year 2019; this budget assumes that the cost of medical benefits will increase 8% effective January 1, 2019.

Following is a summary of the changes to the other expenses categories:

- **Legal** budget totals $379,000, reflecting a decrease of $16,000 or 4.1% over the mid-year budget, based upon analysis of current trends in legal fees. This budget covers SDSURF overall legal costs and Technology Transfer Office legal expenses related to patent processes.

- **Insurance** budget totals $87,000, reflecting a decrease of $9,000 or 9.4% over the mid-year budget projection, based upon updated quotes from our insurance carriers.

- **Supplies** budget totals $61,000, reflecting a decrease of $3,000 or 4.7% over the mid-year budget projection, due to continued efforts to reduce the use of paper via electronic initiatives.

- **Equipment** budget totals $61,000, reflecting an increase of $47,000 or 335.7% over the mid-year budget projection, due to the purchase of computers. SDSURF desktop and laptop computers are on a regular replacement schedule after warranties expire. However, due to the number of computers purchased in FY 2016-17 ($98,078), the budget in FY 2017-18 was reduced to $14,000; FY 2018-19 computer purchases will return to a normalized amount based upon the planned replacement schedule.

- **Travel** budget totals $98,000, reflecting an increase of $15,000 or 18.1% over the mid-year budget projection. Several annual professional conferences, which were held in San Diego in FY 2017-18, will be out of town in FY 2018-19 such as the Banner/Ellucian conference for the SDSURF enterprise software.

- **Contracted Services** budget totals $763,000, reflecting a decrease of $101,000 or 11.7% over the mid-year budget projection. The FY 2017-18 budget included contracted services for the implementation of a new reporting software package. These same costs are not anticipated to occur in FY 2018-19.

- **Audit** budget totals $291,000, reflecting an increase of $15,000 or 5.4% over the mid-year budget due to a previously agreed upon annual increase by the audit firm of Grant Thornton LLP and anticipated additional fees for implementation of multiple new accounting pronouncements.

- **Other operating cost** budget totals $404,000, reflecting an increase of $11,000 or 2.8% over the mid-year budget due to increased costs for Human Resources recruitment/advertising and for staff educational reimbursements.

Facilities Expenses ($10,601,000)

Research foundation staff are involved in a variety of activities related to real property, including managing the space provided to sponsored projects. Facilities Expenses for FY 2018-19

($10,601,000) reflects an increase of $96,000 or 0.9% over the FY 2017-18 mid-year projection and an increase of $194,976 or 1.9% compared to FY 2016-17 actuals. See ***Appendix A*** (page 20) for more detail on the facilities budget.

ALLOCATIONS

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

Direct Support of Research ($2,776,000)

Direct Support of Research for FY 2018-19 ($2,776,000) reflects a decrease of $162,000 or 5.5% over the FY 2017-18 mid-year projection and a decrease of $189,601 or 6.4% compared to FY 2016-17 actuals. This category refers to those resources allocated to principal investigators (PIs) and university organizational units in direct support of proposal development, on-going research programs or other research endeavors.

Bad Debt Allocation ($0)

Bad Debt Allocation for FY 2018-19 ($0) is consistent with the FY 2017-18 mid-year projection and a decrease of $30,000 or 100% compared to FY 2016-17 actuals. The category allocates funds for uncollectible receivables resulting from grants and contracts or other miscellaneous receivables. We do not anticipate needing to add to the contingency for potential write-offs in FY 2018-19 receivables.

Research Endowment Contribution ($0)

In FY 2016-17, the SDSURF Board of Directors approved a one-time contribution to the research endowment in honor of President Hirshman; thus, no amounts were budgeted for FY 2017-18 or FY 2018-19.

Research Support Funds ($2,590,000)

Research Support Funds for FY 2018-19 ($2,590,000) reflects a decrease of $156,000 or 5.7% over the FY 2017-18 mid-year projection and a decrease of $132,829 or 4.9% compared to FY 2016-17 actuals. The proposed FY 2018-19 budget funds 100% of the formula. As in previous years, (80%) $2,072,000 of the budget amount will be provided at the beginning of FY 2018-19. The remaining 20% ($518,000) will be distributed as part of the mid-year FY 2018-19 budget if the projected unrestricted revenue goals are achieved.

Research Support Funds (RSF) are funds allocated to colleges, principal investigators and the vice president for research to support new or existing university research initiatives. This allocation is made by formula and governed by policies approved by the university and research foundation board. RSF funds are provided to projects generating F&A at the full federally negotiated rate for on-campus research.

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 is provided to the vice president for research for institutional support.

The ability to fund 100% of the RSF distribution formula is impacted by actual F&A recovered, total revenues received by the research foundation and the requirement to cover mandatory expenses. In accordance with the approved formula, FY 2018-19 distributions of RSF will be based on the amount of actual F&A generated in FY 2017-18. Therefore, if F&A exceeds the FY 2017-18 proposed mid-year budget and/or the volume of full F&A awards increases, RSF will be increased at the FY 2018-19 mid-year budget update.

University Grants Program ($92,000)

University Grants Program for FY 2018-19 ($92,000) is consistent with the FY 2017-18 mid-year projection and FY 2016-17 actuals. These funds are allocated in support of the University Grants Program (UGP). In addition to the SDSURF allocation of $92,000, the university provides other contributions to the program from the Provost's Office, Adams Humanities Endowment Fund, and Faculty Grant-in Aid Program. The purpose of the UGP is to support scholarly research; assist faculty at lower ranks meet qualifications for retention, tenure, and promotion; permit faculty to bring advanced projects to conclusion; and facilitate development of research programs that may be competitive for extramural funding. The grants are limited to $10,000 and average around $5,000. These funds are provided to junior faculty to strengthen their scholarly activities especially in areas where outside funding sources do not provide much support. During FY 2017-18, research foundation funds were used to support 25 SDSU faculty focusing primarily on early career faculty (16 Assistant Professors, 8 Associate Professors and 1 Full Professor).

BioScience Center Development ($0)

BioScience Center Development allocation for FY 2018-19 ($0) reflects a decrease of $6,000 or 100% over the FY 2017-18 mid-year projection and FY 2016-17 actuals. The BioScience Center (BSC) allocation supports costs associated with the center. The reduction is a result of decreased grant activity associated with the center.

Biology PI Administrative Support ($94,000)

Biology PI Administrative Support FY 2018-19 ($94,000) is consistent with FY 2017-18 mid-year projection and an increase of $3,750 or 4.2% over FY 2016-17 actuals. 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 to support the administrative functions.

Support of Research Infrastructure ($999,000)

Support of Research Infrastructure for FY 2018-19 ($999,000) reflects an increase of $287,000 or 40.3% over the FY 2017-18 mid-year projection and an increase of $280,972 or 39.1% compared to FY 2016-17 actuals. This category refers to allocations made in support of the infrastructure necessary to support and grow the research enterprise.

Project Facilities and Equipment Support ($418,000)

Project Facilities and Equipment Support for FY 2018-19 ($418,000) reflects an increase of $12,000 or 3.0% over the FY 2017-18 mid-year projection and a decrease of $32,000 or 7.1% compared to FY 2016-17 actuals. These monies are used primarily for facilities and equipment support, such as outfitting space assigned to new projects. For example, office furniture, office equipment, and telephone installation are typically required immediately upon notification of a new award.

Research Support - Library ($50,000)

The Library allocation for FY 2018-19 ($50,000) reflects no change from FY 2017-18 mid-year projection and FY 2016-17 actuals. This allocation recognizes the role the SDSU library and its faculty/staff play in supporting SDSU's research mission and provides funds to support acquisition of research publications, software and tools to support the research infrastructure.

Research Compliance ($1,211,000)

Research Compliance for FY 2018-19 ($1,211,000) reflects an increase of $35,000 or 3.0% over the FY 2017-18 mid-year projection and an increase of $60,090 or 5.2% compared to FY 2016-17 actuals.

Funds are provided to the university to offset a portion of infrastructure costs needed to support the required administrative and compliance activities of a research institution. This includes support for the office of the vice president for research, the division of research affairs and environmental health and safety. These critical compliance activities ensure 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.

The increase over the FY 2017-18 mid-year projection reflects anticipated cost-of-living increases. Management is working with colleagues from SDSU's Business and Financial Affairs to assess the allocations for research compliance as part of a long-term initiative to move toward a cost-utilization model.

Waiver of Certain University Allocations ($750,000)

Waiver of Certain University Allocations for FY 2018-19 ($750,000) reflects a decrease of $250,000 or 25% from FY 2017-18 mid-year projection and compared to the FY 2016-17 actuals. The university has generously agreed to a continued waiver in FY 2018-19. Importantly, this is the first year the waiver has been less than $1.0 million since the waiver began in FY 2014-15.

University Research Space ($70,000)

The University Research Space for FY 2018-19 ($70,000) reflects a decrease of $10,000 or 12.5% compared to the FY 2017-18 mid-year projection and reflects an increase of $2,882 or 4.3% compared to FY 2016-17 actuals. 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 in support of sponsored programs. 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.

Investments in Enhanced Service Initiatives ($262,000)

Investments in Enhanced Service Initiatives for FY 2018-19 ($262,000) is consistent with FY 2017-18 mid-year projection but represents a decrease of $175,000 or 40.0% compared to FY 2016-17 actuals. 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.

Systems Infrastructure ($100,000)

Systems Infrastructure for FY 2018-19 ($100,000) is consistent with FY 2017-18 mid-year projection and reflects a decrease of $175,000 or 63.6% compared to FY 2016-17 actuals. Funding for FY 2017-18 included investments for the next electronic initiatives identified as critical priorities to achieve the goal of paperless processing by 2019. Highlights of the FY 2017-18 investment include:

- PI Profile enhancements, including an upgrade of the underlying technology
- CES Consolidated Chart of Accounts project to map data from SDSU and SDSURF systems into a single data set to support streamlined and timely financial reporting
- Fundriver Endowment System implementation for enhanced endowment reporting for The Campanile Foundation
- Metabim Facilities Information System to manage research and commercial properties including an automated work order system that will streamline facilities workflow and enhance customer service
- New Open Enrollment Portal deployed improving the employee experience managing benefit selection processes.

The FY 2018-19 allocation will be used for the following:

- New document management/workflow system implemented to replace existing end-of-life and de-supported system. Reprogramming of existing fund set-up workflows and migration of existing documents including user requested enhancements
- Projects to automate and streamline purchasing, accounts payable and receiving activities
- PI Profile Modernization Project to include deployment of new and improved navigation and enhanced dynamic reporting capabilities
- Ongoing reporting enhancements

- Paperless journal vouchers and cash receipts

Additional funds may be requested at mid-year for these projects.

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

The Washington D.C. Representation for FY 2018-19 ($162,000) is consistent with FY 2017-18 mid-year projection and FY 2016-17 actuals. 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.

RESERVES

Net Funds to (from) Reserves ($0)

The budget reflects a balanced budget for FY 2018-19 with zero needed from reserves – Source of Funds equals Use of Funds. The budget outlook for SDSURF is closely tied to the university's strategic plan to recruit active researchers and enhance the research infrastructure. See ***Appendix B*** for more detail.

GENERAL FUND BUDGET

APPENDIX A

FACILITIES

BACKGROUND

Historically, SDSU Research Foundation has acquired, constructed and managed real property adjacent to the university and at various locations in San Diego County and beyond to support university programs. The research foundation 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 SDSU projects and commercial tenants.
- *Sky Park Court.* This office building in the Kearny Mesa area houses faculty researchers in the College of Health and Human Services and College of Sciences and commercial tenants.
- *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.
- *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.
- *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 unique and endangered species.

RENTAL INCOME

Total Rental Income for FY 2018-19 ($6,178,000) reflects an increase of $458,000 or 8.0% over the FY 2017-18 mid-year projection and an increase of $550,610 or 9.8% compared to FY 2016-17 actuals. The research foundation does not receive rental income on all of its real property. In cases where space is used by sponsored programs on which full F&A costs are recovered, the

F&A rate includes reimbursement for space utilization so additional rent is not charged to the program as a direct cost.

Program Facilities ($1,023,000)
Program Facilities rental income for FY 2018-19 ($1,023,000) reflects an increase of $150,000 or 17.2% over the FY 2017-18 mid-year projection and an increase of $160,485 or 18.6% compared to FY 2016-17 actuals. The overall increase in rent in program facilities is primarily due to the anticipated move of the Women and Infant Children (WIC) program administrative offices from space owned by a third party into SDSURF owned space. This category includes projects housed in research foundation space that do not receive full F&A and have rent budgeted. Rents are offered at reduced rates and space is flexible for growth or reduction over time. Examples include the Academy for Professional Excellence and the Driving Under the Influence Program. Because each project operates on its own funding cycle, rent recoveries vary with the start and end of various programs and fluctuate year to year.

Commercial Rents ($3,721,000)
Program Facilities rental income for FY 2018-19 ($3,721,000) reflects an increase of $78,000 or 2.1% over the FY 2017-18 mid-year projection and an increase of $44,072 or 1.2% compared to FY 2016-17 actuals. The overall increase is due to regular escalation of rents on commercial leases. Commercial rents are an important element in our off-campus model as these tenants generate revenue and fill space vacancies until space is required for researchers.

University Space ($1,434,000)
University Space rental income for FY 2018-19 ($1,434,000) reflects an increase of $230,000 or 19.1% over the FY 2017-18 mid-year projection and an increase of $346,053 or 31.8% compared to FY 2016-17 actuals. The research foundation houses university researchers and programs when space is not available on campus and site specific locations are necessary. Examples include space for the City Heights Educational Collaborative, the Center for Community Counseling & Engagement, and the Black Resource Center. Rents are paid by the university and are discounted to approximately 80% of market pricing. The increase is due to the following:

- Rental of a SDSURF property to the university for development of the Black Resource Center (BRC) effective February 2018. Previously, this property was used for student housing but was repurposed in FY 2017-18 as the Black Resource Center. The additional rent is offset partially by significant tenant improvements.
- Certain university leases were significantly below the SDSURF discounted market price of 80%. As these leases come up for renewal July 1, 2018, the university has agreed to increase the rent up to the 80% of market pricing.

FACILITIES EXPENSES

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 ($6,241,000)

Facilities Operating Expenses for FY 2018-19 ($6,241,000) reflects a decrease of $424,000 or 6.4% over the FY 2017-18 mid-year projection and an increase of $73,351 or 1.2% compared to FY 2016-17 actuals. 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 ***Schedule 8***.

Schedule 8

Facilities Operating Expenses

					Mid-Year compared to Proposed FY 2018-19	
	Actual FY 2016-17	Original FY 2017-18	Mid-Year FY 2017-18	Proposed FY 2018-19	$ Increase (Decrease)	% Increase (Decrease)
Salaries and Benefits	1,764,370	1,811,000	1,876,000	1,744,000	(132,000)	(7.0%)
Operational Expenses	933,283	977,000	971,000	704,000	(267,000)	(27.5%)
Insurance	517,691	536,000	581,000	599,000	18.000	3.1%
Utilities	1,193,607	1,535,000	1,442,000	1,363,000	(79,000)	(5.5%)
Property Taxes	171,532	169,000	162,000	170,000	8,000	4.9%
Contracted Services	874,805	910,000	886,000	880,000	(6,000)	(0.7%)
University Services/Parking	712,361	754,000	747,000	781,000	34,000	4.6%
	6,167,649	6,692,000	6,665,000	6,241,000	(424,000)	(6.4%)

Following are some of the more significant changes:

- **Salaries and Benefits** decreased by $132,000 or 7.0% over mid-year projection due to savings from the transfer of the Shipping and Receiving function to the university as well as a restructure in the Facilities department due to a retirement; the savings in the salaries and benefits from this transfer are partially offset by the increase in the salaries for annual cost-of-living increases. Consistent with overall research foundation administration and operations and comparable to the university, the facilities budget includes the cost-of-living increase for staff that was implemented January 1, 2018 and the anticipated increase comparable to the university's that will be effective January 1, 2019.
- **Operational Expenses** decreased $267,000 or 27.5% primarily due to the one-time move and construction costs included in the mid-year projection to move two projects to a new, more efficient location. We do not anticipate a project move of this caliber in FY 2018-19.

- **Insurance** increased $18,000 or 3.1% compared to the mid-year projection, based upon updated quotes from insurance carriers.
- **Utilities** decreased $79,000 or 5.5% from the mid-year projection as actual utilities costs are trending lower than projected. The Facilities team continues to look for opportunities to save energy and reduce costs.
- **Property taxes** increased $8,000 or 4.9% due to a regular annual increase in property tax rates.
- **Contracted Services** decreased $6,000 or 0.7% due to an anticipated decrease in HVAC repair services. The Facilities team continues to replace outdated HVAC systems, resulting in lower maintenance and repair costs.
- **University Services/Parking** increased $34,000 or 4.6% mainly due to the transfer of the Shipping and Receiving function to the university. While this transition results in an overall savings for both SDSURF and the university, SDSURF will pay a fee to the university for these services, which were previously performed by SDSURF employees. The budget also assumes regular annual increases in university services fees consistent with previous years.

Facilities Capital Improvements ($338,000)

Facilities Capital Improvements for FY 2018-19 ($338,000) reflects an increase of $90,000 or 36.3% over the FY 2017-18 mid-year projection and an increase of $56,526 or 20.1% compared to FY 2016-17 actuals. 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 capital improvements over $5,000, the cost is generally amortized over the life of the improvement. During FY 2018-19, a few of the major planned capital improvements include the following:

- Repaving a significant portion of the parking lot at Alvarado
- Replacement of 4 HVAC units at Alvarado
- Restroom upgrades to comply with ADA requirements at Alvarado
- Elevator interior cab updates at Alvarado and SkyPark
- Window replacements (due to graffiti etching) at City Heights

Facilities Tenant Improvements ($748,000)

Facilities Tenant Improvements for FY 2018-19 ($748,000) reflects an increase of $433,000 or 137.5% over the FY 2017-18 mid-year projection and an increase of $272,586 or 57.3% compared to FY 2016-17 actuals. 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 generally amortized over the life of the lease.

Some of the more significant costs proposed for FY 2018-19 include:

- SDSURF modified a home, which had been used for student housing, into the new Black Resource Center – commercial (non-residential) use. The total cost of the modification was approximately $500,000 and this cost is being amortized over the 3-year lease at $167,000 per year. This increase in tenant improvement cost is recaptured by additional rent paid for the space by the university over the three-year period
- The university recently successfully hired a new research-intensive faculty member in psychology. As part of the package to bring the researcher/faculty member to the university, new space must be built out for him at a cost to the research foundation of approximately $370,000. The total build-out will be amortized over three years with the current FY 2018-19 budget impact being $124,000
- Additionally, we plan for various tenant moves that require improvements to our buildings. As an example of one of the planned tenant improvements, the administration offices for WIC are moving from a third party property owner to SDSURF space which will require tenant improvements (see discussion under Program Facilities rent).

In total, the projected balance outstanding as of June 30, 2019 will be approximately $3.3 million in facilities capital and tenant improvements and equipment that will be amortized through the general fund budget.

Facilities Debt Service ($3,274,000)

Facilities Debt Service for FY 2018-19 ($3,274,000) reflects a decrease of $3,000 or .1% over the FY 2017-18 mid-year projection and a decrease of $7,487 or 0.2% compared to FY 2016-17 actuals. Total debt service decreased with the payoff of the debt on the Heber property, which was sold in September 2017. This category represents annual principal and interest payments due on debt from real property financing. The debt associated with the Gateway Center and Sky Park Court is due to retire in 2022, which will result in potential significant cost reductions for future budgets.

Schedule 9

Summary of Debt Service Proposed FY 2018-19

		Facilities Debt Service	Outstanding Debt March 31, 2018	Last Payment Date
	2010 SRB Bond Issue	$ 506,000	$ 2,415,000	Nov-22
	Gateway Center			
	Internal Financing			
	Sky Park Court	187,000	713,000	Jun-22
	6386 Alvarado Court	236,000	1,704,000	Mar-27
	6367 Alvarado Court	348,000	4,426,000	Mar-40
*	Bioscience Center Lease	475,000	5,600,000	Nov-35
	2012 SRB Bond Issue	1,522,000	24,695,000	Nov-36
	6363 Alvarado Court			
	6330 Alvarado Court			
	6475 Alvarado Road			
	6495 Alvarado Road			
	6505 Alvarado Road			
	4275 El Cajon Blvd			
	4283 El Cajon Blvd			
	City Heights Parking			
	Coastal Waters Lab			
		$ 3,274,000	$ 39,553,000	

* The Bioscience Center is owned by the university and leased to SDSU Research Foundation. The amounts above represent the debt service owed on the center that is paid through lease payments by SDSU Research Foundation.

GENERAL FUND BUDGET

APPENDIX B

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.

While our strategy to stretch reserves has been effective thus far, and has been facilitated by generous university waivers, we continue to work toward sustaining a balanced budget with a goal to add to reserves.

Schedule 10 presents the projected reserve activity for FY 2018-19, which anticipates zero funds needed from discretionary operating reserves to balance the budget.

Schedule 10

Established Reserves Balances

	Projected Balance 6/30/2018	Projected Activity: GF Allocation	Projected Activity: Activity ①	Projected Balance 6/30/2019
Discretionary				
Operating Reserves				
Income Equalization	500,000	-	-	500,000
Working Capital	2,910,000	-	62,000	2,972,000
Operating Contingency	1,062,000	-	(62,000)	1,000,000
Facilities	960,000	-	-	960,000
Utilities	200,000	-	-	200,000
Insurance	855,000	-	74,000	929,000
Debt Service	956,000	-	-	956,000
Total Operating	7,443,000	-	74,000	7,517,000
Quasi-Endowments				
General Fund	3,078,000	-	-	3,078,000
Research Endowment	2,946,000	-	-	2,946,000
Research Endowment Income	496,000	-	(116,000)	380,000
Total Quasi-Endowment	6,520,000	-	(116,000)	6,404,000
Total Discretionary	13,963,000	-	(42,000)	13,921,000
Non-discretionary				
Employee-Related				
Retiree Medical VEBA Trust	11,722,000	89,000	(86,000)	11,725,000
Employee Fringe Benefits	1,670,000	-	-	1,670,000
Workers' Compensation Insurance	3,000,000	-	-	3,000,000
Unemployment Insurance	2,000,000	-	-	2,000,000
Total Non-discretionary	18,392,000	89,000	(86,000)	18,395,000
Total Reserves	32,355,000	89,000	(128,000)	32,316,000

① Projected transactions for FY 2018-19

The research foundation's reserves are categorized as discretionary (funds designated by the board of directors for specific purposes) and non-discretionary (required by law or regulation). The components of each reserve category and the established goals are presented below. Management plans to replenish reserves as funding becomes available.

<u>Discretionary Funds ($500,000)</u>

Income Equalization ($500,000)

The budgeted amount for F&A cost recovery each year is only an estimate and represents approximately 65.0% 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 2.5% of annual F&A cost recovery. The goal for this reserve is five percent of F&A cost recovery ($990,000).

Working Capital ($2,972,000)

Working capital provides resources to keep operations running through the short term (under one year) as needed.

The goal for this reserve has historically 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 $4,645,000.

Since this year's balance falls short of the goal, the research foundation may need to pull from other resources to provide the cash flow required to manage grants and contracts. The research foundation utilizes board-designated funds, The Campanile Foundation funds held at the research foundation and self-support programs cash balances to provide cash as needed for operations. In addition, the research foundation has a $12,000,000 line of credit available through First Republic Bank, which while not used historically, is available to fund short-term operation needs.

Funds were added ($62,000) to the Working Capital Reserve from the operating contingency reserve since the amount in the operating contingency reserve exceeded its target level.

Operating Contingency ($1,000,000)

Historically, this reserve pertains mainly to potential disallowances on grants and contracts and to other general operating contingencies. Despite best efforts, audit disallowances are an expected 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

- Continuity of experienced staff and adequacy of internal controls
- Administrative resources devoted to administration of grants and contracts.

The goal for this reserve is approximately $1,000,000. The activity in this reserve relates to anticipated reimbursements of prior year expenses. Funds were transferred ($62,000) to the working capital contingency reserve since this reserve exceeded its target.

Facilities ($960,000)

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

Utilities ($200,000)

This reserve was established to help manage unexpected, significant increases in the cost of utilities. With this reserve, the management team does not have to budget quite so conservatively for utilities as this reserve can be accessed if rates rise quickly or harsh weather causes a spike in utilities. Management plans to add to this reserve over time to reach the goal of approximately $500,000.

Insurance ($929,000)

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. The activity reflected for FY 2018-19 relates to insurance dividends anticipated in July 2018.

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). Management does not recommend adding to this reserve unless necessary or required by the lender if new debt is issued.

Quasi-Endowment/General Fund ($3,078,000)

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. Revenue distributions from the endowment are reflected in the investment income line on the General Fund Budget (Schedule 1).

Quasi-Endowment/Research Endowment ($2,946,000)

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. In FY 2014-15, the research foundation contributed approximately $700,000 from the sale of property to the research endowment bringing the total contributed capital amount to $2.7 million. This reserve is also invested in The Campanile Foundation's endowment pool because of the long-term commitment of the funds.

Research Endowment Income ($380,000)

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 $116,000 noted in the activity column represents a net amount of $84,000 anticipated to be distributed from the research endowments, offset by a withdrawal of approximately $200,000 to fund University Doctoral Fellowship (to provide a number of competitive, merit based stipends to students in SDSU's most research intensive Ph.D. programs).

<u>Non-discretionary Funds</u>

Retiree Medical VEBA Trust ($11,725,000)

The overall projected increase in the trust value is due to both actuarially calculated contributions from the General Fund, KPBS, and College of 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 ($1,670,000)

This reserve provides funding for employee vacation and sick leave benefits. Although vacation benefit costs are typically funded from the annual operating budget as employees take vacation, generally accepted accounting principles (GAAP) require employers to accrue and earn unused vacation benefits. The potential liability amount is determined at each fiscal year end. In February 1998, the board approved a retiree 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 ($3,000,000)

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 $1,240,000. 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 obtains an annual report from an actuary regarding recommended reserve levels.

Unemployment Insurance ($2,000,000)

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 charged.

Unfunded Obligations

SDSU Research Foundation has a total of approximately $7.2 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, 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. Additionally, when SDSURF receives net income from the ground lease to Capstone for its Montage student housing project, the funds will be used to reduce this deficit. The research foundation also has extensive equity in its property portfolio and has developed a management plan that identifies specific properties that could be utilized to clear the deficits.