

**San Diego State University  
Research Foundation**



**General Fund Budget**  
Fiscal Year 2019-20

*Cover photo:* Dr. Jing Gu conducts an experiment using sunlight to convert water into hydrogen as a fuel.

*Principal Investigator:* Jing Gu, chemistry and biochemistry

While sunlight offers an inexhaustible source of renewable energy, direct harvesting of solar energy is challenging due to the variation and intermittence of natural sunlight. One promising solution is the collection and storage of solar energy into chemical bonds by forming fuels such as hydrogen – similar to photosynthesis that occurs in nature. Dr. Gu is developing an innovative way to produce hydrogen without any supply of external electricity. This work will help create the next generation of scalable, durable and affordable energy (and water treatment) devices, and reduce our energy dependence on fossil fuels. The National Science Foundation supports Dr. Gu's work.

Photo courtesy of National Renewable Energy Lab

**This proposed FY 2019-20 budget was approved by the SDSU Research Foundation board of directors on May 3, 2019 without any changes.**

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## MESSAGE FROM THE EXECUTIVE DIRECTOR

I am pleased to present the fiscal year 2019-20 proposed budget of \$32,232,000 on behalf of our management team. This budget reflects our ongoing mission to serve SDSU and support SDSU researchers. Our priorities for FY 2019-20 continue to focus on streamlining processes and creating efficiencies, and making strategic investments in our staff and systems to enhance services.

### Budget Highlights

- No use of reserves is anticipated to balance the FY 2019-20 budget
- Reduction of university waiver of research compliance reimbursements from \$750,000 to \$650,000
- Award dollars and F&A dollars are up, primarily due to receipt of the final allotment of funding for the SDSU-Georgia project, receipt of new programs such as HealthLINK and an increase in NSF awards.
- Increase in project facilities/equipment support primarily due to investments in space for the HealthLINK program
- Research Support Funds (RSF) have been budgeted at 100 percent of the RSF formula.

*There is reason for optimism about the coming year based on the following positive indicators:*

**University recruitments** – The university continues to invest in new faculty with 58 faculty searches underway. This was the final year in the five-year program to hire 300 new faculty in five years. Over the past five years, these 294 new faculty have already submitted 872 proposals and received 375 awards valued at \$47.4 million with \$11 million in F&A.

**University investments** – The university continues its commitment to and support of research. This year's investment of \$4 million 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.

**NSF awards** – After last year's dip in NSF awards, we show a near doubling in the number of NSF awards received over the same period in 2017-18 (40 vs. 23); the number of awards already exceeds the total number received last year. The dollar amount of NSF awards received (\$7.2 million) has also more than doubled compared to the same period last year of \$3.0 million.

**GREW Success** – Eighty-eight percent of the 110 GREW participants have submitted proposals. Since the program began five years ago, their 771 proposals have resulted in 266 awards totaling \$27.7 million and generating \$6.1 million in F&A.

**Active researchers** – The number of grant-supported faculty has increased for the third consecutive year with 366 active principal investigators compared to 345 last year.

*Despite these positive factors, we continue to budget conservatively for the following reasons:*

**Uncertainty in Washington** – The federal budget directly affects research foundation resources. Approximately eighty percent of our F&A revenue comes from federal sponsors.

The president's FY20 Budget Request proposes cuts in non-defense discretionary programs and again seeks to eliminate the National Endowment for the Humanities and National Endowment for the Arts. Reductions are also proposed for the Corporation for Public Broadcasting, which supports the KPBS radio/television station.

The budget also proposes significant cuts to NIH (12%) and NSF (12%), which would result in a decrease in the number of competing research grants and a drop in the success rate. However, similar proposals to cut NIH and NSF in the past two years have been rejected by Congress, and these agencies enjoy considerable bipartisan support. Individual House and Senate sub-committees will begin work on FY20 appropriations bills with a goal for passage by October 1<sup>st</sup>.

**Proposal submissions** – While the dollar amount proposed is 3.3% higher than the same period last year, the number of proposals submitted has decreased by 5.1%, and the F&A amount proposed has decreased by 5.2%.

**NIH awards** – While there is a 5.8% increase in the dollar amount of NIH awards received this year compared to the same period in 2017-18, the number of awards received has decreased by 15%. The number of NIH proposals submitted is down by 11%; proposed dollars are down by 20% and proposed F&A is down by 28%.

### **Moving Forward**

FY 2018-19 marked our first year under the leadership of President Adela de la Torre. Dr. de la Torre serves as president of our research foundation board of directors and is a strong supporter of the university's research mission, its researchers, and our auxiliary. We look forward to working with her and all the new deans and administrators who have joined SDSU.

Thanks to our research foundation staff for their good work and commitment to our organization, our researchers and SDSU.

Sincerely,



Michèle G. Goetz

Associate Vice President and Executive Director

April 12, 2019

## **GENERAL FUND BUDGET OVERVIEW**

### **ABOUT THE RESEARCH FOUNDATION**

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 leaders/faculty/staff and community members, the organization exists to serve SDSU. SDSURF's 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**

### **Source of Funds**

***Unrestricted Revenue*** - Unrestricted Revenue, projected to be \$32,232,000, generated by SDSURF activities includes the following revenue categories:

- 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 from properties owned by SDSURF
- Technology Transfer Office (TTO) Revenue which includes royalties and legal reimbursements
- Investment Income

Overall, Unrestricted Revenue is expected to increase by \$1,431,000 or 4.6% from FY 2018-19 mid-year projections and \$1,675,000 or 5.5% from FY 2018-19 original projections.

### **Use of Funds**

***Basic Support*** - Basic Support is projected to increase by \$1,064,000 or 4.1% from the FY 2018-19 mid-year projection and \$790,000 or 3.0%, from the FY 2018-19 original projection. The

increase over the mid-year FY 2018-19 projection is due to an increase in salaries and benefits for planned merit increases along with the addition of three new positions, two full-time and one part-time (see page 12-13 for complete discussion). The FY 2018-19 budget also included one-time savings for temporarily sharing the CFO position with The Campanile Foundation, and savings from open positions that took longer to fill than anticipated. Additionally, a Research Advancement position was moved from Administration & Operations to an Allocation for Enhanced Program Support.

**Allocations** - Allocations for Enhanced Program Support increased by \$367,000 or 8.1% from the FY 2018-19 mid-year projection and increased by \$885,000 or 21.9% from the FY 2018-19 original projection. The increase from mid-year FY 2018-19 is due to additional funding for Project Facilities and Equipment Support for the buildout of administrative space for the HealthLINK grant, as well as the allocation for the research advancement position previously funded in Administration & Operations. The university will continue to waive a portion of the Research Compliance chargebacks; however, the waiver was reduced from \$750,000 in the FY 2018-19 original and mid-year budgets to \$650,000 in the proposed FY 2019-20 budget.

**Reserves** - The budget shows a net of \$0 coming from reserves to balance the FY 2019-20 budget, for the third consecutive year, reflecting the continuing progress SDSURF has made towards balancing the budget over the last several years.



**Schedule 1**

<b>General Fund Budget 2019-20</b>			
<b><u>SOURCE OF FUNDS</u></b>	<b>FY 2018-19 Original</b>	<b>FY 2018-19 Mid-Year</b>	<b>FY 2019-20 Proposed</b>
<b><i>Unrestricted Revenue:</i></b>			
Grants & Contracts F&A	19,750,000	19,850,000	21,100,000
Self-Support Programs Fees	3,000,000	2,846,000	2,896,000
Facilities Rents	6,178,000	6,360,000	6,518,000
TTO Revenue	106,000	194,000	103,000
Investments	1,523,000	1,551,000	1,615,000
<b><i>Total Unrestricted Revenue</i></b>	<b>30,557,000</b>	<b>30,801,000</b>	<b>32,232,000</b>
<b><u>USE OF FUNDS</u></b>			
<b><i>Basic Support</i></b>			
Administration & Operations	15,919,000	15,687,000	16,368,000
Facilities Expenses	10,601,000	10,559,000	10,942,000
<b><i>Total Basic Support</i></b>	<b>26,520,000</b>	<b>26,246,000</b>	<b>27,310,000</b>
<b>Net Remaining after Providing Basic Support</b>	<b>4,037,000</b>	<b>4,555,000</b>	<b>4,922,000</b>
<b><i>Allocations for Enhanced Program Support:</i></b>			
<b><i>Direct Support of Research:</i></b>			
Presidential Inauguration Contribution	-	60,000	-
Research Support Funds	2,590,000	2,837,000	2,780,000
University Grants Program	92,000	92,000	92,000
Biology PI Administrative Support	94,000	94,000	94,000
	<b>2,776,000</b>	<b>3,083,000</b>	<b>2,966,000</b>
<b><i>Support of Research Infrastructure:</i></b>			
Project Facilities and Equipment Support	418,000	629,000	740,000
Research Support - Library	50,000	50,000	50,000
Research Advancement Position	-	-	225,000
Research Compliance	1,211,000	1,211,000	1,261,000
Waiver of Certain Research Compliance Allocations	(750,000)	(750,000)	(650,000)
University Research Space	70,000	70,000	70,000
	<b>999,000</b>	<b>1,210,000</b>	<b>1,696,000</b>
<b><i>Investment in Enhanced Service Initiatives:</i></b>			
Systems Infrastructure	100,000	100,000	200,000
Washington D. C. Representation	162,000	162,000	60,000
	<b>262,000</b>	<b>262,000</b>	<b>260,000</b>
<b><i>Total Allocations for Enhanced Program Support</i></b>	<b>4,037,000</b>	<b>4,555,000</b>	<b>4,922,000</b>
<b><i>Total Basic Support and Allocations</i></b>	<b>30,557,000</b>	<b>30,801,000</b>	<b>32,232,000</b>
<b>TOTAL SOURCE OF FUNDS</b>	<b>30,557,000</b>	<b>30,801,000</b>	<b>32,232,000</b>
<b>TOTAL USE OF FUNDS</b>	<b>30,557,000</b>	<b>30,801,000</b>	<b>32,232,000</b>
<b><i>Net Funds to (from) Reserves</i></b>	<b>-</b>	<b>-</b>	<b>-</b>

## GENERAL FUND BUDGET DETAIL

### SOURCE OF FUNDS

#### *Unrestricted Revenue*

##### **Grants & Contracts – Facilities & Administrative (F&A) Cost Recovery (\$21,100,000)**

The major source of unrestricted revenue is *F&A cost recovery* from sponsored research programs. Projected F&A cost recovery represents 65.5% 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 actual recovery rate for FY 2018-19 is projected to be 27.0% of modified total direct costs or 20.0% of all direct expenditures.

Proposed F&A for FY 2019-20 (\$21,100,000) reflects an increase of \$1,250,000 or 6.3% over the FY 2018-19 mid-year projection and an increase of \$1,350,000 or 6.8% compared to the FY 2018-19 original projection. Over time, SDSURF management has developed multiple models for projecting F&A, which take into account awards received, proposals pending, anticipated new awards, and amounts already received but not yet spent, commonly referred to as Work In Process (WIP). Projected F&A increased in part based upon receipt of the first year of a five-year, \$19.9 million National Institutes of Health award to fund the SDSU HealthLINK Center. While this award started in FY 2018-19, we are anticipating spending will accelerate in FY 2019-20, resulting in a significant increase in F&A. With the budget uncertainty in Washington, agencies may have been holding on to some of their funds in FY 2018-19. We are hopeful that in spite of continuing uncertainty, FY 2019-20 will see an up-tick in awards and spending.

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 FY 2019-20 award total is highly dependent upon the federal budget and the stability of funding. The dollar amount of awards received during the first nine months of FY 2018-19 has increased from the same time last year by \$10,748,918. The majority of the increase is attributable to the \$10.5 million award for the final four years of the SDSU-Georgia program.

The number of proposals submitted decreased compared to the first nine months of the prior fiscal year. The number of proposals submitted has only decreased by 36, but the F&A amount associated with those proposals, a key driver for the General Fund Budget, has decreased by \$1,538,144. This decrease in number of proposals is primarily due to timing, rather than a trend toward lower volume. The overall dollar amount proposed has increased by \$4,623,208.

**Schedule 2** provides a summary of FY 2017-18 proposals and awards and a comparison of actual numbers for the first nine months of the fiscal year through March 2019 as compared to March 2018.

### Schedule 2

#### Proposals Submitted

	Actual	July 1 – March 31		Increase (Decrease)	% Increase (Decrease)
	FY 2017-18	FY 2018-19	FY 2017-18		
# Proposals Submitted	1,214	665	701	(36)	(5.1%)
\$ Amount Proposed	215,431,374	143,745,272	139,122,064	4,623,208	3.3%
\$ F&A Costs Proposed	43,942,639	28,140,714	29,678,858	(1,538,144)	(5.2%)
% F&A Costs Awarded/Direct Costs	25.6%	24.3%	27.1%		

#### Awards Received

	Actual	July 1 – March 31		Increase (Decrease)	% Increase (Decrease)
	FY 2017-18	FY 2018-19	FY 2017-18		
# Awards Received	756	522	494	28	5.7%
\$ Awards Received	135,033,450	95,887,015	85,138,097	10,748,918	12.6%
\$ F&A Costs Awarded	23,173,664	16,962,163	14,016,933	2,945,230	21.0%
% F&A Costs Awarded/Direct Costs	20.7%	21.5%	19.7%		

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, WIP has increased significantly from this time in the prior year, mainly due to the receipt of the first year funding of the SDSU HealthLINK grant awarded in FY 2018-19, as well as several other large grants. We are hopeful for an increase in awards in the last quarter of FY 2018-19 and the first quarter of FY 2019-20 which would continue to have a positive impact on WIP. The increase in F&A in WIP as of March 31, 2019 compared to March 31, 2018 is a significant factor in the increased general fund projection of F&A.

**Schedule 3**

<b>Work in Process</b>				
	<b>YTD FY 2018-19 March 31, 2019 TOTAL</b>	<b>YTD FY 2017-18 March 31, 2018 TOTAL</b>	<b>\$ Increase (Decrease)</b>	<b>% Increase (Decrease)</b>
<b>Salaries</b>	28,787,770	27,190,625	1,597,145	5.9%
<b>Benefits</b>	12,073,354	11,300,624	772,730	6.8%
<b>Other Direct</b>	23,992,287	19,628,163	4,364,124	22.2%
<b>MTDC Subtotal</b>	<u>64,853,411</u>	<u>58,119,412</u>	<u>6,733,999</u>	<u>11.6%</u>
<b>Equipment</b>	350,259	1,313,109	(962,850)	(73.3%)
<b>Student Support</b>	5,319,907	4,498,529	821,378	18.3%
<b>Subcontracts</b>	10,727,566	11,615,732	(888,166)	(7.6%)
<b>Other Direct</b>	804,449	864,484	(64,035)	(7.4%)
<b>Other Subtotal</b>	<u>17,202,181</u>	<u>18,295,854</u>	<u>(1,093,673)</u>	<u>(6.0%)</u>
<b>Total Direct</b>	<u>82,055,592</u>	<u>76,415,266</u>	<u>5,640,326</u>	<u>7.4%</u>
<b>F&amp;A Costs</b>	<u>19,956,845</u>	<u>16,499,755</u>	<u>3,457,090</u>	<u>21.0%</u>
<b>Total Costs</b>	<u>102,012,437</u>	<u>92,915,021</u>	<u>9,097,416</u>	<u>9.8%</u>
<b>F&amp;A Costs/MTDC</b>	30.8%	28.4%		

**Spending Trends**

F&A is earned when principal investigators/project directors actually spend their awarded funds. The expected direct cost expenditure level for FY 2019-20 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, 2019 to those on March 31, 2018. Spending has decreased over the prior year by \$1.9 million or 2.3%; however, F&A is up by \$218,798 the first nine months of FY 2018-19 (26.9%) compared to the first nine months of FY 2017-18 (25.7%). We are hopeful that with the large increases in WIP, spending trends will follow and we will see significant increases in FY 2019-20.

**Schedule 4**

<b>Spending Trends</b>				
	<b>YTD FY 2018-19</b>	<b>YTD FY 2017-18</b>		
	<b>March 31, 2019</b>	<b>March 31, 2018</b>		
	<b>TOTAL</b>	<b>TOTAL</b>	<b>\$ Increase</b>	<b>% Increase</b>
			<b>(Decrease)</b>	<b>(Decrease)</b>
<b>Salaries</b>	28,818,437	29,234,025	(415,588)	(1.4%)
<b>Benefits</b>	8,717,711	8,912,849	(195,138)	(2.2%)
<b>Other Direct</b>	13,260,914	14,012,186	(751,272)	(5.4%)
<b>MTDC Subtotal</b>	<u>50,797,062</u>	<u>52,159,060</u>	<u>(1,361,998)</u>	<u>(2.6%)</u>
<b>Equipment</b>	1,121,867	1,649,506	(527,639)	(32.0%)
<b>Student Support</b>	4,454,660	4,621,563	(166,903)	(3.6%)
<b>Subcontracts</b>	6,969,246	7,932,287	(963,041)	(12.1%)
<b>Other Direct</b>	4,690,850	3,825,942	864,908	22.6%
<b>Other Subtotal</b>	<u>17,236,623</u>	<u>18,029,298</u>	<u>(792,675)</u>	<u>(4.4%)</u>
<b>Total Direct</b>	<u>68,033,685</u>	<u>70,188,358</u>	<u>(2,154,673)</u>	<u>(3.1%)</u>
<b>F&amp;A Costs</b>	<u>13,646,820</u>	<u>13,428,022</u>	<u>218,798</u>	<u>1.6%</u>
<b>Total Costs</b>	<u>81,680,505</u>	<u>83,616,380</u>	<u>(1,935,875)</u>	<u>(2.3%)</u>
<b>F&amp;A Costs/MTDC</b>	26.9%	25.7%		

**F&A Cost Recovery Percentages**

The effective rate of Facilities and Administrative (F&A) cost recoveries is an important measure in projecting revenue, and is projected to increase for FY 2019-20. The research foundation's negotiated cost recovery rate for FY 2019-20 is 50.5%. The effective rates for the past nine years and projections for 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**

<b>Sponsored Program Expenditures and F&amp;A Effective Cost Recovery Rates</b>						
Fiscal Year	Total Costs	MTDC	Other *	F&A Costs	F&A Rate Effective Rate MTDC	F&A Effective Rate TDCO
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	116,736,231	73,573,612	23,410,848	19,751,861	26.8%	20.4%
2018-19 **	119,100,000	73,519,000	25,731,000	19,850,000	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 (\$2,896,000)**

Self-Support Programs Fees for FY 2019-20 (\$2,896,000) are projected to increase by \$50,000 or 1.8% over the FY 2018-19 mid-year projection and to decrease by \$104,000 or 3.5% compared to the FY 2018-19 original projection. 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 increase from the mid-year projection is mainly due to the annual escalations negotiated as part of the MOU agreements with KPBS and The Campanile Foundation. The decrease from the original FY 2018-19 projection is due to lower volume in CES than projected.

**Rents (\$6,518,000)**

Total Rents for FY 2019-20 (\$6,518,000) reflects an increase of \$158,000 or 2.5% over the FY 2018-19 mid-year projection and an increase of \$340,000 or 5.5% compared to the FY 2018-19 original projection. The increase from the mid-year projection is due to regular rent escalations in leases while the increase from original projection is due to new leases entered into during the fiscal year not originally considered in the budget. See *Appendix A* (page 21) 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 (\$103,000)**

Total TTO Revenue for FY 2019-20 (\$103,000) reflects a decrease of \$91,000 or 46.9% over the FY 2018-19 mid-year projection and a decrease of \$3,000 or 2.8% compared to the FY 2018-19 original projection. 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 typically caused by fluctuations in legal expense reimbursements, which are distributed 100% to the research foundation. Furthermore, the FY 2018-19 mid-year projection included a one-time payment for the sale of a data set to a private company, which has not been projected to occur again next fiscal year.

**Investments (\$1,615,000)**

Investment Income for FY 2019-20 (\$1,615,000) reflects an increase of \$64,000 or 4.1% over the FY 2018-19 mid-year projection and an increase of \$92,000 or 6.0% compared to the FY 2018-19 original projection. The increase in investment income is primarily due to a new investment strategy to maximize interest earnings on short-term cash through a bank sweep account established in February 2019, and an increase in short-term interest rates.

## USE OF FUNDS

***Basic Support*****Administration & Operations (\$16,368,000)**

Administration and Operations Expenses for FY 2019-20 (\$16,368,000) reflect an increase of \$681,000 or 4.3% over the FY 2018-19 mid-year projection and an increase of \$449,000 or 2.8% compared to the FY 2018-19 original projection. When analyzing the increase, the change from original budget is a more accurate comparison since the mid-year budget reflects one-time savings for the temporary shared CFO position as well as other one-time salary savings for positions which took an extended time to fill.

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									
	Original		Mid-year		Proposed		Proposed compared to Mid-year FY 2018-19		Proposed compared to Original FY 2018-19	
	FY 2018-19	% of Total	FY 2018-19	% of Total	FY 2019-20	% of Total	\$ Increase (Decrease)	% Increase (Decrease)	\$ Increase (Decrease)	% Increase (Decrease)
<b>Personnel Costs</b>										
Salaries	9,966,000	62.6%	9,701,000	61.8%	10,229,000	62.5%	528,000	5.4%	263,000	2.6%
Benefits *	3,809,000	23.9%	3,738,000	23.8%	3,882,000	23.7%	144,000	3.9%	73,000	1.9%
	<u>13,775,000</u>	<u>86.5%</u>	<u>13,439,000</u>	<u>85.7%</u>	<u>14,111,000</u>	<u>86.2%</u>	<u>672,000</u>	<u>5.0%</u>	<u>336,000</u>	<u>2.4%</u>
<b>Operating Costs</b>										
Legal	379,000	2.4%	429,000	2.7%	392,000	2.4%	(37,000)	(8.6%)	13,000	3.4%
Insurance	87,000	0.5%	78,000	0.5%	85,000	0.5%	7,000	9.0%	(2,000)	(2.3%)
Supplies	61,000	0.4%	68,000	0.4%	59,000	0.4%	(9,000)	(13.2%)	(2,000)	(3.3%)
Equipment	61,000	0.4%	60,000	0.4%	67,000	0.4%	7,000	11.7%	6,000	9.8%
Travel	98,000	0.6%	100,000	0.6%	97,000	0.6%	(3,000)	(3.0%)	(1,000)	(1.0%)
Contracted Services **	763,000	4.8%	793,000	5.1%	863,000	5.5%	70,000	8.8%	100,000	13.1%
Audit	291,000	1.8%	315,000	2.0%	292,000	1.9%	(23,000)	(7.3%)	1,000	0.3%
Other	404,000	2.5%	405,000	2.6%	402,000	2.6%	(3,000)	(0.7%)	(2,000)	(0.5%)
	<u>2,144,000</u>	<u>13.5%</u>	<u>2,248,000</u>	<u>14.3%</u>	<u>2,257,000</u>	<u>13.8%</u>	<u>9,000</u>	<u>0.4%</u>	<u>113,000</u>	<u>5.3%</u>
	<u>15,919,000</u>	<u>100.0%</u>	<u>15,687,000</u>	<u>100.0%</u>	<u>16,368,000</u>	<u>100.0%</u>	<u>681,000</u>	<u>4.3%</u>	<u>449,000</u>	<u>2.8%</u>

\* Retiree medical is included in this line.

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

The most significant change from the original FY 2018-19 budget to the FY 2019-20 budget relates to salaries and benefits, which total \$14,111,000, reflecting an increase of \$263,000 in salaries and \$73,000 in benefits for a total increase of \$336,000 or 2.4% due to the following:

### Salaries

- \$297,000 – Projected merit increase of 3% consistent with the university. SDSURF provides salary and benefits comparable to the university as required by Title 5, Section 42405 of the California Code of Regulations. The research foundation has consistently mirrored the university merit pools.
- \$183,000 – Salaries for three additional positions – two full-time and one part-time
  - Grant Specialist – It is important that we maintain sufficient staffing to provide the administrative support needed for our researchers while also ensuring compliance with federal, state, and university policies and regulations. In fiscal year 2018-19, numerous factors resulted in the need for additional staffing at



the grant specialist level, including receipt of the large and complex NIH award for the SDSU HealthLINK Center. This addition will ensure we can adequately support the needs of this new center without impacting services to other researchers.

- Grant Specialist/part-time – This will be a rover position to provide back up support for vacation, medical, and maternity leaves for Sponsored Research Administration staff members. Additionally, as staff retire and/or turn over occurs, this position will help fill the gap while new staff are recruited in order to maintain uninterrupted service to researchers.
- Risk Manager – The risk manager position was eliminated in 2011 due to budget challenges and risk responsibilities were disseminated across various departments and individuals. Reinstatement of the risk manager position will ensure we have a comprehensive approach to risk assessment and mitigation including workers' compensation, business continuity and disaster recovery, insurance coverage, program assessment and support, legal coordination, and managerial reporting. With this focus on risk management, this position should help to manage insurance and legal costs.
- (\$200,000) – Shifting of expense to an allocation due to the transition of a Research Advancement position to a university position. The passing of Mr. Tim Hushen left a void in the leadership of the advancement and technology transfer units. Vice President Welter has recommended moving this position to a university position to more closely align and clarify the reporting of these units under his oversight. SDSURF will continue to provide funding for the salary and benefits under the allocations budget as a reimbursement to the university.
- (\$18,000) – Salary savings from the transfer of a research foundation Human Resources position to KPBS. KPBS and SDSURF previously shared the cost of this position. When the position was transferred, salary expenses were reduced and KPBS fees were also reduced by a corresponding amount. This nine-month transfer occurred during FY 2018-19; savings reflects the remaining savings for the full fiscal year.

### **Benefits**

- Due to the net increase in salaries, fringe benefits also increased by \$73,000.

### **Salaries & Benefits**

In summary, Salaries & Benefits increased due to the additional merit pool, the addition of three new positions offset by movement of the research advancement position to an allocation and the savings from the KPBS Human Resources position.

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

- **Legal** budget totals \$392,000, reflecting an increase of \$13,000 or 3.4% over the FY 2018-19 original 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 \$85,000, reflecting a decrease of \$2,000 or 2.3% over the FY 2018-19 original budget projection, based upon updated quotes from our insurance carriers.
- **Supplies** budget totals \$59,000, reflecting a decrease of \$2,000 or 3.3% over the FY 2018-19 original projection, due to continued efforts to reduce the use of paper via electronic initiatives.
- **Equipment** budget totals \$67,000, reflecting an increase of \$6,000 or 9.8% over the FY 2018-19 original budget projection, due to the purchase of a new server to replace a current server that is reaching end of life and is due to be retired next fiscal year. The majority of servers, when reaching end of life, are being replaced with cloud services; however, for disaster recovery and business continuity purposes, we will continue to maintain a few servers on-premises.
- **Travel** budget totals \$97,000, reflecting a decrease of \$1,000 or 1.1% over the FY 2018-19 original budget projection.
- **Contracted Services** budget totals \$863,000, reflecting an increase of \$100,000 or 13.1% over the FY 2018-19 original budget projection due to several security software updates in the information systems department, including renewal of our anti-malware software and the execution of a 3rd party patch management subscription. Furthermore, with the anticipation of implementing the new document imaging and workflow program in late FY 2018-19, the FY 2019-20 budget includes the associated annual maintenance costs on this software.
- **Audit** budget totals \$292,000, reflecting an increase of \$1,000 or 0.3% over the FY 2018-19 original budget due to a previously agreed upon annual increase by the audit firm of Grant Thornton LLP, offset by one-time expenses for implementation of recharge centers related to the SDSU HealthLINK award in FY 2018-19.
- **Other operating cost** budget totals \$402,000, reflecting a decrease of \$2,000 or 0.5% over the FY 2018-19 original budget. Other operating costs include HR recruitment fees, telephone, postage, duplicating, printing, educational reimbursements, professional development, publications, computer supplies and software.

### **Facilities Expenses (\$10,942,000)**

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 2019-20 (\$10,942,000) reflects an increase of \$383,000 or 3.6% over the FY 2018-19 mid-year projection and an increase of \$341,000 or 3.2% compared to the FY 2018-19 original projection. See *Appendix A* (page 21) 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 (\$2,966,000)**

Direct Support of Research for FY 2019-20 (\$2,996,000) reflects a decrease of \$117,000 or 3.8% over the FY 2018-19 mid-year projection and an increase of \$190,000 or 6.8% compared to the FY 2018-19 original projection. 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.

### **Presidential Inauguration Contribution (\$0)**

The Presidential Inauguration Contribution reflects a decrease of \$60,000 or 100.0% compared to the FY 2018-19 mid-year projection. The research foundation made a one-time contribution of \$60,000 towards President de la Torre's inauguration celebration in FY 2018-19.

### **Research Support Funds (\$2,780,000)**

Research Support Funds (RSF) for FY 2019-20 (\$2,780,000) reflects a decrease of \$57,000 or 2.0% over the FY 2018-19 mid-year projection and an increase of \$190,000 or 7.3% compared to the FY 2018-19 original. The decrease in RSF from mid-year 2018-19 is due to a one-time payment of RSF on a fixed price close-out which was not known when the original projection was made. The proposed FY 2019-20 budget funds 100% of the formula. As in previous years, (80%) \$2,224,000 of the budget amount will be provided at the beginning of FY 2019-20. The remaining 20% (\$556,000) will be distributed as part of the mid-year FY 2019-20 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 2019-20 distributions of RSF will be based on the amount of actual F&A generated in FY 2018-19. Therefore, if F&A exceeds the FY 2018-19 proposed mid-year budget and/or the volume of full F&A awards increases, RSF will be increased at the FY 2019-20 mid-year budget update.

### **University Grants Program (\$92,000)**

University Grants Program for FY 2019-20 (\$92,000) is consistent with the FY 2018-19 mid-year projection and the FY 2018-19 original projection. 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 typically provided to junior faculty to strengthen their scholarly activities especially in areas where outside funding sources do not provide much support.

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

Biology PI Administrative Support FY 2019-20 (\$94,000) is consistent with FY 2018-19 mid-year projection and the FY 2018-19 original projection. Since the federal regulations regarding the ability to direct charge administrative support changed 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 (\$1,696,000)**

Support of Research Infrastructure for FY 2019-20 (\$1,696,000) reflects an increase of \$486,000 or 40.2% over the FY 2018-19 mid-year projection and an increase of \$697,000 or 69.8% compared to the FY 2018-19 original projection. This category refers to allocations made in support of the infrastructure necessary to support and grow the research enterprise.

**Project Facilities and Equipment Support (\$740,000)**

Project Facilities and Equipment Support for FY 2019-20 (\$740,000) reflects an increase of \$111,000 or 17.6% over the FY 2018-19 mid-year projection and an increase of \$322,000 or 77.0% compared to the FY 2018-19 original projection. 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. The majority of this increase is due to the buildout of administrative space for the SDSU HealthLINK award. The grant provides funding for buildout of a clinic space but not administrative space. In order to accommodate the need for contiguous space, significant modifications are necessary, including moving multiple other projects. The first allocation towards this buildout was made in FY 2018-19, with the anticipation that more funds will be needed in FY 2019-20.

**Research Support - Library (\$50,000)**

The Library allocation for FY 2019-20 (\$50,000) reflects no change from FY 2018-19 mid-year projection and the FY 2018-19 original projection. 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 Advancement Position (\$225,000)**

Research Advancement Position reflects an increase of \$225,000. Previously, this position was part of the Administration & Operations budget of the research foundation. With the restructuring of this position, we are now providing this as an allocation to cover the salary and benefits of this position, which will support the Vice President for Research.

**Research Compliance (\$1,261,000)**

Research Compliance for FY 2019-20 (\$1,261,000) shows an increase of \$50,000 from the FY 2018-19 mid-year projection as well as the FY 2018-19 original projection.

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.

Management is working with SDSU's Business and Financial Affairs to assess these research compliance allocations as part of a long-term goal to move toward a cost-utilization model. These costs were moved to the research foundation in 2009-10 as a cost shifting methodology as opposed to a usage methodology in order to help the campus balance its budget. Over time, we anticipate this allocation will be reduced to better reflect the true usage of these services.

### **Waiver of Certain University Allocations (\$650,000)**

Waiver of Certain University Allocations for FY 2019-20 (\$650,000) reflects a decrease of \$100,000 or 13.3% from FY 2018-19 mid-year projection as well as from the FY 2018-19 original projection. The university has generously agreed to a continued waiver in FY 2019-20. Importantly, we have continued to reduce this waiver over time down from a high of \$1,117,000 in FY 2014-15 to \$650,000 in the FY 2019-20 projected budget, a reduction of \$467,000 or 41.8%.

### **University Research Space (\$70,000)**

The University Research Space for FY 2019-20 (\$70,000) reflects no change compared to the FY 2018-19 mid-year projection as well as the FY 2018-19 original projection. 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 space 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 (\$260,000)**

Investments in Enhanced Service Initiatives for FY 2019-20 (\$260,000) reflects a decrease of \$2,000 or 0.8% from the FY 2018-19 mid-year projection as well as from the FY 2018-19 original projection. 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 (\$200,000)**

Systems Infrastructure for FY 2019-20 (\$200,000) reflects an increase of \$100,000 or 100% from the FY 2018-19 mid-year projection as well as from the FY 2018-19 original projection. Funding for FY 2018-19 included investments for the next electronic initiatives identified as critical priorities to achieve the goal of paperless processing over the next several years. Highlights of the FY 2018-19 investment include:

- MyRF/PI Profile Modernization Project to include deployment of new and improved navigation, enhanced dynamic reporting capabilities and streamlined workflow
- 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
- Automated upload and processing of cash receipt data from new CES registration system to Banner finance

The FY 2019-20 allocation will be used for the following:

- Implementation of new document management/workflow system 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
- New initiative to digitize personnel files
- SDSUId authentication for SDSURF systems (MyRF, InfoEd, Workforce, etc.)
- Projects to automate and streamline purchasing, accounts payable and receivable activities
- Ongoing reporting enhancements delivered in MyRF
- Paperless journal vouchers
- Online fund review systems for annual review of self-support funds (9-ledger) by SDSU and SDSURF personnel

**Washington D.C. Representation (\$60,000)**

SDSU Research Foundation has engaged 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. The Carpi & Clay team is extremely knowledgeable, responsive and has helped in the past to procure special funding for SDSU. Their influence helped us secure, for example, initial support in 2010 for the Language Acquisition Resource Center (LARC) which now competes for funding from a federal program which moved to a line item in the FY 2018-19 appropriations bill.

While the team continues to provide timely information about the federal budget, appropriations and opportunities, our own access to this information has improved with the abundance of timely information on the internet and through the increased expertise of the staff in research advancement. We are proposing to move, on a trial basis, to an actual utilization model based on an hourly rate for Carpi & Clay services during FY 2019-20 with an initial cap of \$60,000. This will reduce the budgeted amount from \$162,000 to \$60,000, a decrease of \$102,000 or 63.0% from the FY 2018-19 mid-year projection as well as the FY 2018-19 original. This allocation will be reviewed at mid-year to determine if additional funds are needed.

## **RESERVES**

### **Net Funds to (from) Reserves (\$0)**

The budget reflects a balanced budget for FY 2019-20 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* (page 27) 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 Research and Professional 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. Note: this property was rebranded in 2018-19 to better reflect the mix of researchers and commercial tenants housed in this complex (formerly: Alvarado Medical Center).
- *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 finance and construct this 30,000 square-foot research facility on the SDSU campus.
- *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 2019-20 (\$6,518,000) reflects an increase of \$158,000 or 2.5% over the FY 2018-19 mid-year projection and an increase of \$340,000 or 5.5% compared to the FY 2018-19 original projection. Total Rental Income is a combination of rental income from program facilities, commercial rents and university space. 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 (\$1,058,000)**

Program Facilities rental income for FY 2019-20 (\$1,058,000) reflects an increase of \$11,000 or 1.1% over the FY 2018-19 mid-year projection and an increase of \$35,000 or 3.4% compared to the FY 2018-19 original projection. 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 (\$3,973,000)**

Program Facilities rental income for FY 2019-20 (\$3,973,000) reflects an increase of \$123,000 or 3.2% over the FY 2018-19 mid-year projection and an increase of \$252,000 or 6.8% compared to the FY 2018-19 original projection. When the original FY 2018-19 budget was prepared, there were no assumptions made for new leases for vacant space. However, vacant space was subsequently leased to commercial tenants in FY 2018-19, contributing to the significant increase. 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 (\$1,487,000)**

University Space rental income for FY 2019-20 (\$1,487,000) reflects an increase of \$24,000 or 1.6% over the FY 2018-19 mid-year projection and an increase of \$53,000 or 3.7% compared to the FY 2018-19 original projection. The research foundation houses university researchers and programs when space is not available on campus and site specific locations are necessary. Examples include space currently provided 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 in the rent projection is due to set annual increases per the lease agreements.

## FACILITIES EXPENSES

The facilities operations function includes the costs of maintaining and managing real and personal property owned or overseen by the research foundation.

### Schedule 8

<b>Facilities Expenses</b>										
	Original		Mid-year		Proposed		Proposed compared to Mid-year FY 2018-19		Proposed compared to Original FY 2018-19	
	FY 2018-19	% of Total	FY 2018-19	% of Total	FY 2019-20	% of Total	\$	%	\$	%
							Increase (Decrease)	Increase (Decrease)	Increase (Decrease)	Increase (Decrease)
<b>Facilities Operating Expense</b>										
Salaries and Benefits	1,744,000	16.5%	1,695,000	16.1%	1,784,000	16.3%	89,000	5.3%	40,000	2.3%
Operational Expenses	704,000	6.6%	714,000	6.8%	743,000	6.8%	29,000	4.1%	39,000	5.5%
Insurance	599,000	5.7%	562,000	5.3%	579,000	5.3%	17,000	3.0%	(20,000)	(3.3%)
Utilities	1,363,000	12.9%	1,427,000	13.5%	1,371,000	12.5%	(56,000)	(3.9%)	8,000	0.6%
Property Taxes	170,000	1.6%	125,000	1.2%	178,000	1.6%	53,000	42.4%	8,000	4.7%
Contracted Services	834,000	7.9%	868,000	8.2%	908,000	8.3%	40,000	4.6%	74,000	8.9%
University Services/Parking	781,000	7.4%	762,000	7.2%	797,000	7.3%	35,000	4.6%	16,000	2.0%
	6,195,000	58.4%	6,153,000	58.3%	6,360,000	58.1%	207,000	3.4%	165,000	2.7%
<b>Other Expenses</b>										
Facilities Operating Expenses										
Capital Improvements	338,000	3.2%	338,000	3.2%	450,000	4.1%	112,000	33.1%	112,000	33.1%
Tenant Improvements	748,000	7.1%	748,000	7.1%	706,000	6.5%	(42,000)	(5.6%)	(42,000)	(5.6%)
Debt Service	3,320,000	31.3%	3,320,000	31.4%	3,426,000	31.3%	106,000	3.2%	106,000	3.2%
	4,406,000	41.6%	4,406,000	41.7%	4,582,000	41.9%	176,000	4.0%	176,000	4.0%
	10,601,000	100.0%	10,559,000	100.0%	10,942,000	100.0%	383,000	3.6%	341,000	3.2%

### Facilities Operating Expenses (\$6,360,000)

Facilities Operating Expenses for FY 2019-20 (\$6,360,000) reflects an increase of \$207,000 or 3.4% over the FY 2018-19 mid-year projection and an increase of \$165,000 or 2.7% compared to the FY 2018-19 original projection. 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*.

Following are some of the more significant changes compared to the original FY 2018-19 budget:

**Salaries and Benefits** increased by \$40,000 or 2.3% compared to the FY 2018-19 original projection due to assumed annual merit increases. Consistent with overall research foundation administration and operations and comparable to the university, the facilities budget includes the 3% merit increase for staff that was implemented January 1, 2019 and the anticipated 3% increase comparable to the university's that will be effective January 1, 2020.

- **Operational Expenses** increased \$39,000 or 5.5% compared to the FY 2018-19 original projection primarily due to the anticipated purchase of several lock boxes for onsite key storage. Currently, the Facilities crew is required to return to the shop to retrieve keys for our properties; however, by storing these keys in lock boxes onsite at our various properties, the crew will be able to go directly to the property while working in the field. This will increase efficiency and timely service for our researchers.
- **Insurance** decreased \$20,000 or 3.3% compared to the FY 2018-19 original projection, based upon updated quotes from insurance carriers.
- **Utilities** increased \$8,000 or 0.6% from the FY 2018-19 original projection due to slightly higher rates expected. Additionally, we have implemented some new energy savings measures that offset other potential increases in rates. The Facilities team continues to look for opportunities to save energy and reduce costs.
- **Property taxes** increased \$8,000 or 4.7% due to a regular annual increase in property tax rates; additionally, the amounts charged for our various properties varies based upon the allocation of exempt (project) versus non-exempt (commercial) usage of the space.
- **Contracted Services** increased \$74,000 or 8.9% compared to the FY 2018-19 original projection due to an increase in anticipated painting and building services at various properties, including exterior trim paint at Sky Park Court, corrosion mitigation at the Coastal Waters Lab, and resealing of exterior windows at several buildings.
- **University Services/Parking** increased \$16,000 or 2.0% compared to the FY 2018-19 original projection due to regular annual increases in university services fees consistent with previous years.

### **Facilities Capital Improvements (\$450,000)**

Facilities Capital Improvements for FY 2019-20 (\$450,000) reflects an increase of \$112,000 or 33.1% over the FY 2018-19 original and mid-year projections. 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 2019-20, a few of the major planned capital improvements include the following:

- Repaving a significant portion of the parking lot at Sky Park
- Replacement of the third and final air handler at Alvarado
- Implementation of parking lot controls at Coastal Waters Lab due to the opening of new hotels adjacent to our property
- Continued upgrades at the Alvarado Research and Professional Center to comply with ADA requirements

**Facilities Tenant Improvements (\$706,000)**

Facilities Tenant Improvements for FY 2019-20 (\$706,000) reflects a decrease of \$42,000 or 5.6% over the FY 2018-19 original and mid-year projections. 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. This decrease is due to the payments ending on several amortized projects from prior years. While this budget is decreasing slightly, the Facilities team continues to strive to meet the needs of our tenants.

Some of the more significant costs proposed for FY 2019-20 include:

- Relocation of the Sponsored Research Administration module at Alvarado in order to accommodate necessary space for the SDSU HealthLINK Center
- A significant expansion for a commercial tenant at City Heights, resulting in a long-term extension of their lease
- Several improvements for various principal investigators as their funding increases and space is requested.

In total, the projected balance outstanding as of June 30, 2020 will be approximately \$3.5 million in facilities capital and tenant improvements and equipment that will be amortized through the general fund budget.

**Facilities Debt Service (\$3,426,000)**

Facilities Debt Service for FY 2019-20 (\$3,426,000) reflects an increase of \$106,000 or 3.2% over the FY 2018-19 original and mid-year projections. This category represents annual principal and interest payments due on debt from real property financing. In order to continue to pay down the 2006 Real Estate Management Plan from the prior redevelopment project for the College Community Area, \$100,000 was added to the FY 2019-20 budget to help pay down these deficits. As a reminder, these deficits arose from the payment of predevelopment costs on a large redevelopment project, which did not move forward. Management intends to continue budgeting funds for this pay down. 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 which can be reallocated in future budgets to pay down the remaining predevelopment costs or for other purposes.

**Schedule 9**

<b>Summary of Debt Service Proposed FY 2019-20</b>			
	<u>Last Payment Date</u>	<u>Facilities Debt Service</u>	<u>Outstanding Debt March 31, 2019</u>
2010 SRB Bond Issue	Nov-22	\$ 511,000	\$ 1,975,000
Gateway Center			
Internal Financing			
Sky Park Court	Jun-22	187,000	559,000
6386 Alvarado Court	Mar-27	236,000	1,550,000
6367 Alvarado Court	Mar-40	348,000	4,319,000
* Bioscience Center Lease	Nov-35	475,000	5,400,000
2012 SRB Bond Issue	Nov-36	1,569,000	24,175,000
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			
RE Mgmt Plan deficit pay down		100,000	6,671,759
		<u>\$ 3,274,000</u>	<u>\$ 39,553,000</u>

\* 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**

**The mid-year budget reflects a balanced budget.**

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 (allocations). 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 2019-20, which anticipates zero funds needed from discretionary operating reserves to balance the budget.

**Schedule 10**

<b>Reserves</b>			
	<b>Projected Balance 6/30/2019</b>	<b>Goal for Reserve as of FY 2019-20</b>	<b>Additional Funds needed to meet Reserve Goal</b>
<b>Discretionary</b>			
Operating Reserves			
Income Equalization	500,000	1,055,000	555,000
Working Capital	3,192,000	5,337,000	2,145,000
Operating Contingency	1,000,000	1,000,000	-
Facilities	960,000	1,500,000	540,000
Utilities	300,000	500,000	200,000
Insurance	929,000	929,000	-
Debt Service	956,000	956,000	-
<b>Total Operating</b>	<b>7,837,000</b>	<b>11,277,000</b>	<b>3,440,000</b>
Quasi-Endowments			
General Fund	3,088,000	3,088,000	-
Research Endowment	2,900,000	2,900,000	-
Research Endowment Income	700,000	700,000	-
Total Quasi-Endowment	6,688,000	6,688,000	-
<b>Total Discretionary</b>	<b>14,525,000</b>	<b>17,965,000</b>	<b>3,440,000</b>
<b>Non-discretionary</b>			
Employee-Related			
Retiree Medical VEBA Trust	11,802,000	11,802,000	-
Employee Fringe Benefits	1,644,000	1,644,000	-
Workers' Compensation Insurance	3,181,000	3,181,000	-
Unemployment Insurance	2,071,000	2,071,000	-
<b>Total Non-discretionary</b>	<b>18,698,000</b>	<b>18,698,000</b>	<b>-</b>
<b>Total Reserves</b>	<b>33,223,000</b>	<b>36,663,000</b>	<b>3,440,000</b>
RE Management Plan Deficit		(6,671,759)	
Net Reserves after deductions RE Management Plan Deficit		<u>29,991,241</u>	

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.

**Discretionary Funds (\$14,525,000)****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 2.4% of annual F&A cost recovery. The goal for this reserve is five percent of F&A cost recovery (\$1,055,000).

### **Working Capital (\$3,192,000)**

Working capital provides resources to keep SDSURF's 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 \$5,337,000.

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.

### **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.

### **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 (\$300,000)**

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. At mid-year budget review, we may ask to use some of these funds to implement additional energy saving initiatives, which would further help to control utilities costs.

**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.

**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.

**Unfunded Obligations**

SDSU Research Foundation has a total of approximately \$6.7 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 the majority of the 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. As part of the FY 2019-20 budget proposal, debt service was increased by \$100,000 (see schedule 9) in order to begin making additional payments to pay down this deficit.

**Quasi-Endowment/General Fund (\$3,088,000)**

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 (\$2,900,000)**

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. (Income from this portion of the endowment is used to offset the real estate fund deficits or general fund shortfalls as needed.) This reserve is also invested in The Campanile Foundation's endowment pool because of the long-term commitment of the funds.

**Research Endowment Income (\$700,000)**

The income distributions from the Quasi-Endowment/Research Endowment (net of income from the investment of the \$700,000 from sale of property) are deposited in this reserve and made available to the Vice President for Research to fund university research initiatives. The funds are invested to preserve principal balance in anticipation of expenditures related to research.

**Non-discretionary Funds****Retiree Medical VEBA Trust (\$11,802,000)**

The overall projected 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 qualified 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 qualified retirees receiving benefits increases.

**Employee Fringe Benefits (\$1,644,000)**

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 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 (\$3,181,000)**

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 (\$2,071,000)**

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.