San Diego State University

Research Foundation

General Fund Budget

Fiscal Year 2017-18

Cover photo: Manal Swairjo

The x-ray crystal structure of QueF-L from the thermophilic crenarchaeon *Pyrobaculum calidifontis.* QueF-L is an ancient enzyme that catalyzes the last step in the biosynthesis of archaeosine, a modified nucleoside necessary for the structural stability of tRNA in Archaea. The reaction catalyzed by QueF-L, the amidation of nitrile to formamidine, is unprecedented in Biology. The enzyme is built from 10 identical subunits arranged around a tunnel, and provides a scaffold for the binding of tRNA at the interfaces between subunits. The remarkable structural similarity but functional divergence of QueF-L from the nitrile reductase QueF highlights the power of molecular evolution in the emergence of new chemistry in nature.

Principal Investigator: Dr. Manal Swairjo, chemistry and biochemistry

Professor Swairjo's work helps us better understand how genes evolved to make life forms what they are today, and allows us to discover new ways to fight infectious diseases and improve the environment. Her research is supported by the National Institute of General Medical Sciences and the National Science Foundation.

This proposed FY 2017-18 budget was approved by the SDSU Research Foundation board of directors on May 5, 2017 without any changes.

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MESSAGE FROM THE EXECUTIVE DIRECTOR

I'm pleased to present the Fiscal Year 2017-18 proposed budget on behalf of the SDSU Research Foundation management team. We are happy to report the positive trends we are seeing that will position us well for the coming year; however, we are remaining conservative in our revenue projections as we prepare for anticipated but as yet unknown federal budget cuts.

Budget Highlights

- Research Support Funds (RSF) will continue to be funded at 100%
- Strategically investing in positions that will help generate revenues, protect our faculty IP and improve timely negotiation of awards
- Budgeted for anticipated compensation increases comparable to the university
- University will continue to waive $1,000,000 of reimbursements
- No reserves will be required to balance this budget.

Reasons for Optimism

SDSU faculty continue their impressive success in the grants arena. We are projecting $130-$137 million in awards for FY 2016-17, likely exceeding the previous year's $130 million.

These increases can be attributed to the faculty's exceptional scholarship and the university's commitment to and support of research. A partial list of university direct funding for FY 2016-17 includes $2 million to support: Areas of Excellence start-up funds and core support; Grant and Research Enterprise Writing (GREW) Institute; Summer Undergraduate Research Program; facilities improvement and research equipment; graduate fellowships; and other direct support for faculty research.

<u>New faculty success</u>. New faculty who have joined SDSU since 2014 are becoming prolific grant-seekers and recipients. They've already submitted almost as many proposals during the first nine months of this year as they did during the entire 2015-16 fiscal year. And, they've already received 42% more awards during this period than they did for the entire FY 2015-16 year. Recruitments are underway for 60 new faculty to begin in the fall of 2017.

<u>Success of GREW and AOE programs</u>. Since their creation in fiscal year 2014-15, Areas of Excellence faculty have submitted 67 proposals and been awarded 31 grants valued at $4.2 million and $1.1 million in F&A. Participants in the Grant and Research Enterprise Writing (GREW) Institute have submitted 291 proposals and received 79 awards totaling more than $ 13 million and generating $2.7 million in F&A.

<u>National Science Foundation Success</u>. NSF awards accounted for 7.3% of total awards in FY 2015-16 and are on the rise for FY 2016-17. In FY 2015-16, SDSU faculty received 53 NSF awards valued at $9.5 million, including $2.3 million in F&A. During the first nine months of FY 2016-17, faculty have already received more awards (55), comparable dollars ($9.4 million) and more F&A ($2.5 million) than all of 2015-16. These numbers include funds received directly from NSF or passed through another entity.

Other Contributing Factors

Cost-savings. This year, our team implemented several cost-saving measures that will have a positive impact on the FY 2017-18 budget and beyond. These include:

- Reduction in bank fees from the bank conversion - $100,000
- Reduction in loan fees for the working capital line of credit - $20,000
- Reduction in short-term investment fees - $35,000
- Reduction in audit fees for the benefits plan audit - $4,200
- New firewall system to enhance cyber security for cumulative savings over five years - $53,000
- Relocation of RF computer servers to the university data center, avoiding investments in HVAC and UPS systems - $200,000.

Service Enhancements. We continue to focus on automation as an important component of reducing costs and enhancing services. Successful automation initiatives implemented this year include:

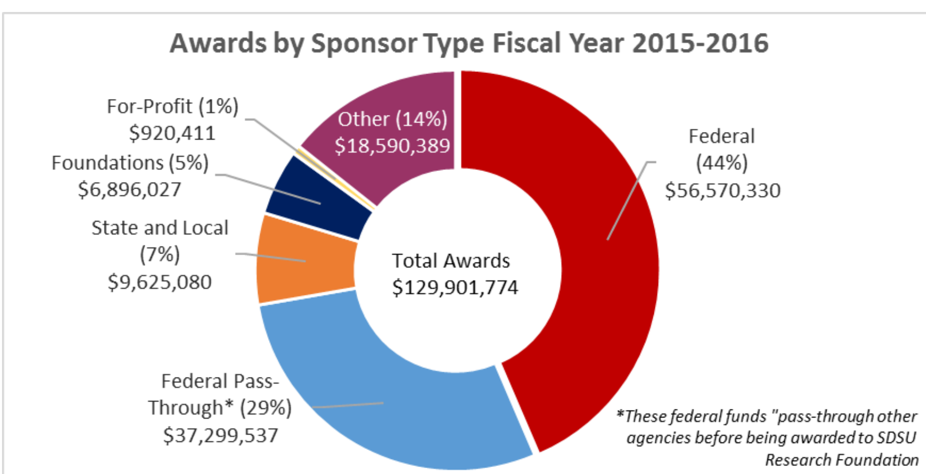
- Automated workflow of over 60 different types of personnel changes (going live May 1st)
- Enhanced scholarship and endowment reporting for The Campanile Foundation
- Electronic fixed asset inventory system
- Automated feed of data from InfoEd (proposal routing software) to Banner (financial accounting system), eliminating one data entry position in FY 2016-17.

Staffing. A restructure this year eliminated and reallocated two senior management positions in order to add staff positions that provide direct services to researchers. By reducing the management team, we were able to add a senior facilities planning manager, a proposal development specialist, two grant coordinator positions (one new, one upgrade to a vacant position) and a payroll technician.

F&A Rate Increase. Our rate will increase by one-half a percent from 50% to 50.5% on July 1, 2017. As research volume grows and new awards incorporate the updated rate, additional F&A will be generated.

Challenges

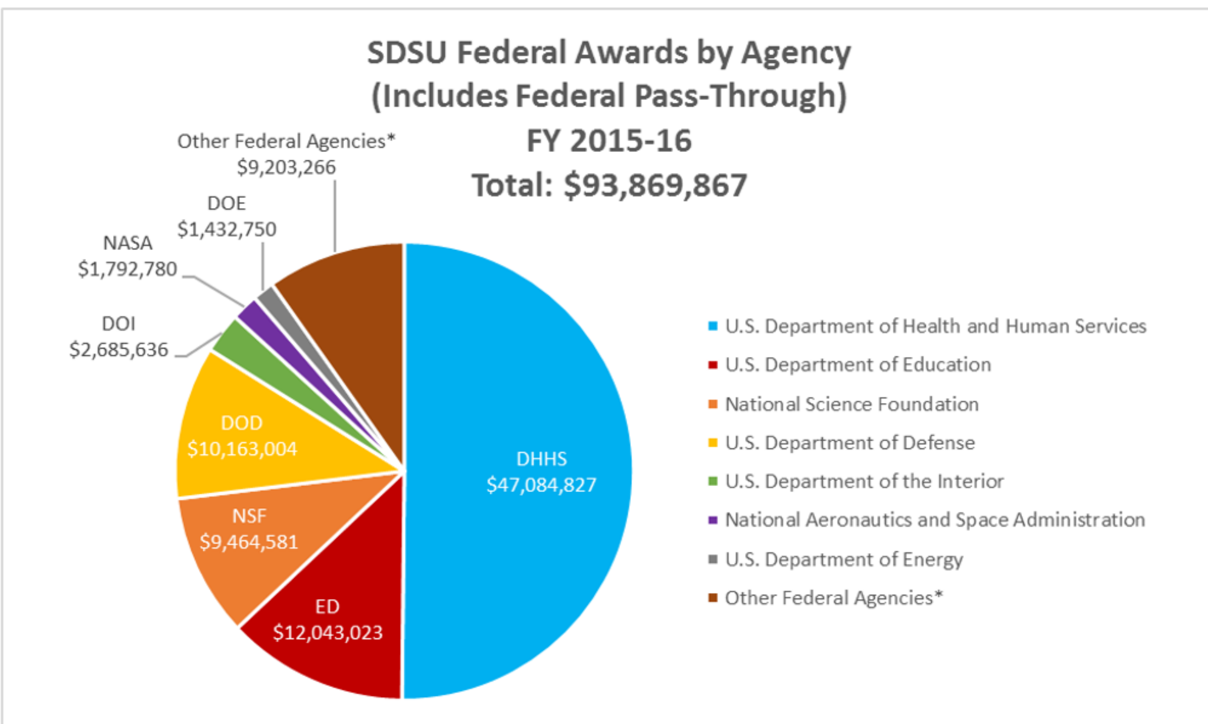
While indicators are positive, we remain cautious due to the uncertain impact of proposed federal budget cuts in President Trump's "skinny budget." The federal budget always impacts our resources and the researchers we support – 73% of our revenue came from federal sponsors in FY 2015-16.



This year, we are monitoring the status of the federal budget especially closely and preparing for cuts in key agencies and programs that traditionally support SDSU. For example:

- The President's budget would eliminate environment/climate-change initiatives and prevention programs across several agencies including the State Department, Environmental Protection Agency and NOAA.
- Commerce department funding for coastal and marine management and research may also be reduced.
- The proposed budget eliminates several agencies entirely, including the Corporation for Public Broadcasting, which provides more than $3 million in annual funding to our own KPBS Station.
- Cuts are proposed to education programs including the TRIO program and teacher training programs; the elimination of international education programs is looming.
- Particularly alarming is the proposed $5.8 billion (19%) cut to NIH, a division within the Department of Health and Human Services, and the news that these cuts could come through the elimination of indirect costs. SDSU received $29.1 million in awards from NIH in 2015-16 with $7.2 million of F&A; this accounted for 22.5% of total awards and 35% of total F&A awarded last fiscal year.

These proposed cuts, and those to other agencies and programs could have a significant, detrimental impact on research at SDSU. The chart below shows the dollar amounts of federal awards to SDSU by agency.



*Other Federal Agencies include: U.S. Department of Housing and Urban Development, U.S. Department of Commerce, U.S. Department of Labor, Small Business Administration, U.S. Department of Justice, U.S. Department of Agriculture, U.S. Department of Homeland Security, U.S. Department of State, U.S. Department of Transportation, National Endowment for the Humanities, U.S. Environmental Protection Agency, and National Endowment for the Arts

Potential Opportunities

As daunting as the proposed cuts are, the budget could provide new funding opportunities in certain areas in which SDSU has expertise including: homeland security, job creation/workforce development, women's entrepreneurship, health care and transitioning services for veterans; food safety and nutrition.

There are still many unknowns at the time of this writing. The President's proposed FY 2018 budget is expected to be released in May. The details that have been released to date have been met with congressional push back. Each house of Congress must propose a budget resolution after reviewing the President's request; appropriations committees must propose final bills for consideration and the House and Senate must resolve differences between the two versions. We will continue to monitor the budget process and the agencies and programs that support SDSU.

Looking Ahead

We will continue to work with our board of directors and university leaders to create a sustainable financial model. We are making progress in this direction with our first budget since FY 2011-12 that does not anticipate pulling from reserves. We will continue to identify ways to conserve resources by cutting costs where possible and implementing efficient, cost-effective initiatives that help us provide consistent, quality service.

I'd like to thank our staff for their efforts and support during my first year as executive director. They are not only hard-working, reliable and committed to our mission; they are also creative and forward-thinking – and they enhance our organization and workplace. A special thanks to Leslie Levinson, who served as Interim CFO this year and has agreed to continue on our team full-time. I'm grateful for her invaluable expertise and knowledge.

We look forward to continuing to facilitate the needs of SDSU researchers and supporting SDSU's research mission.

Michele G. Goetz
Associate Vice President and Executive Director April 13, 2017

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 2017-18 ($183,075,000) reflects an increase of $6,748,000 or 3.8% over FY 2016-17 mid-year projections as well as an increase of $2,819,000 or 1.6% compared to FY 2015-16 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 $153,060,000 – includes grants and contracts (direct cost reimbursements), self-support programs (funds held in trust for the College of Extended Studies, KPBS, and The Campanile Foundation) and contributions to the university for KPBS. While these restricted revenues are included in the research foundation's financial statements, they are not part of the general fund budget.

Overall, FY 2017-18 unrestricted revenue is expected to increase by $1,065,000 or 3.7% from FY 2016-17 mid-year projections as well as $301,768 or 1.0% from FY 2015-16 actuals.

Unrestricted revenue – the projected amount of $30,015,000 – makes up the unrestricted portion of total revenues generated by research foundation activities including:

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

- Royalties
- Legal reimbursements related to technology transfer
- Investments.

Basic Support. Basic Support is projected to increase by $1,009,000 or 4.0% from FY 2016-17 mid-year projections as well as $934,784, or 3.7%, from the FY 2015-16 actuals. The increase over the mid-year 2016-17 projection is due to an increase in salaries and benefits for planned merit increases as well as the addition of one position and the conversion of one part-time position to full-time. Additionally, in FY 2016-17 there were significant one-time salary savings from positions open during recruitments.

Allocations. Allocations for Enhanced Program Support increased by $16,000 or 0.4% from the FY 2016-17 mid-year budget but decreased by $461,333 or 10.4% from 2015-16 actuals. Research Support Funds continue to be funded at 100% of formula. The research compliance allocations increased by $61,000 or 5.3% from the FY 2016-17 mid-year budget but decreased by $112,475 or 8.5% from the FY 2015-16 actuals. The university will continue to waive $1.0 million of allocations for the FY 2017-18 budget.

***Reserves*.** The budget shows a net of $0 coming from reserves to balance the FY 2017-18 budget which reflects the progress SDSURF has made towards balancing the budget over the last several years.

Schedule 1

General Fund Budget 2017-18

	FY 2015-16 Actual	FY 2016-17 Original	FY 2016-17 Mid-Year	FY 2017-18 Proposed
SOURCE OF FUNDS				
Unrestricted Revenue:				
Georgia Project F&A	1,724,079	850,000	800,000	700,000
Traditional Programs F&A	17,484,111	17,000,000	18,000,000	19,100,000
Total Grants & Contracts F&A	19,208,190	17,850,000	18,800,000	19,800,000
Self-Support Programs Fees	3,228,208	3,304,000	3,204,000	3,268,000
Facilities Rents				
Program Facilities	861,113	811,000	864,000	864,000
Commercial	3,723,472	3,786,000	3,646,000	3,718,000
University	1,205,868	1,238,000	1,097,000	1,114,000
Total Facilities Rents	5,790,453	5,835,000	5,607,000	5,696,000
Royalties	97,076	86,000	79,000	81,000
Legal Reimbursements - TTO	86,794	48,000	60,000	25,000
Total TTO Revenue	183,870	134,000	139,000	106,000
Investments	1,302,511	940,000	1,200,000	1,145,000
Total Unrestricted Revenue	**29,713,232**	**28,063,000**	**28,950,000**	**30,015,000**
USE OF FUNDS				
Basic Support				
Administration & Operations	14,527,631	14,670,000	14,620,000	15,500,000
Facilities Expenses				
Facilities Operating Expenses	6,513,923	6,737,000	6,557,000	6,692,000
Capital Improvements	311,639	241,000	241,000	235,000
Tenant Improvements	447,898	321,000	321,000	315,000
Debt Service Payments	3,293,125	3,354,000	3,281,000	3,287,000
Total Facilities Expenses	10,566,585	10,653,000	10,400,000	10,529,000
Total Basic Support	**25,094,216**	**25,323,000**	**25,020,000**	**26,029,000**
Net Remaining after Providing Basic Support	4,619,016	2,740,000	3,930,000	3,986,000
Allocations for Enhanced Program Support:				
Direct Support of Research:				
Bad Debt Allocation	177,110	-	30,000	-
Research Support Funds	2,795,456	2,731,000	2,731,000	2,781,000
University Grants Program	92,125	92,000	92,000	92,000
Professors Helping Professors/GREW Mentors	-	17,000	17,000	-
BioScience Center Development	23,210	10,000	10,000	6,000
Biology PI Administrative Support	93,855	94,000	94,000	94,000
	3,181,756	2,944,000	2,974,000	2,973,000
Support of Research Infrastructure:				
Project Facilities and Equipment Support	376,318	450,000	450,000	406,000
Research Support - Library	50,000	50,000	50,000	50,000
Research Compliance	1,327,475	1,154,000	1,154,000	1,215,000
Waiver of Certain Research Compliance Allocations	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
University Research Space	74,784	80,000	80,000	80,000
	828,577	734,000	734,000	751,000
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	4,447,333	3,940,000	3,970,000	3,986,000
Total Basic Support and Allocations	**29,541,549**	**29,263,000**	**28,990,000**	**30,015,000**
TOTAL SOURCE OF FUNDS	**29,713,232**	**28,063,000**	**28,950,000**	**30,015,000**
TOTAL USE OF FUNDS	**29,541,549**	**29,263,000**	**28,990,000**	**30,015,000**
Net Funds to (from) Reserves	**171,683**	**(1,200,000)**	**(40,000)**	**-**

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

GENERAL FUND BUDGET
DETAIL

SOURCE OF FUNDS

Unrestricted Revenue

Grants & Contracts – Facilities & Administrative (F&A) Cost Recovery ($19,800,000)

The major source of unrestricted revenue is ***F&A cost recovery*** from sponsored research programs. Projected F&A cost recovery represents 66.0% of total unrestricted monies available. Although the federal negotiated F&A rate for research is 50.0% 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 2016-17 is projected to be 27.1% of modified total direct costs or 20.0% of all direct expenditures. The research rate will increase to 50.5% effective July 1, 2017. This increase will be effective on new grants and contracts awarded after June 30, 2017.

Proposed F&A for FY 2017-18 ($19,800,000) reflects an increase of $1,000,000 or 5.3% over FY 2016-17 mid-year projection as well as an increase of $591,810 or 3.1% compared to FY 2015-16 actuals. In FY 2015-16, we received significant increases to the F&A rates on two large grants totaling approximately $500,000 in additional F&A for the year. Those F&A rate adjustments continue and contribute to the increase in overall F&A for FY 2016-17 and the projected increase for FY 2017-18.

F&A on traditional contracts and grants, not including SDSU Georgia, is trending upward with an increase of $1,100,000 or 6.1% over FY 2016-17 mid-year projection as well as an increase of $1,615,889 or 9.3% compared to 2015-16 actuals. This increase is directly attributable to the investments the university has made in new faculty and research infrastructure.

On the SDSU Georgia contract, the F&A will decrease for each remaining year, from $700,000 estimated for FY 2017-18, to $575,000 for FY 2018-19 and $165,000 for FY 2019-20.

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 9), Work in Process (Schedule 3, page 10), Spending Trends (Schedule 4, page 11), and F&A Cost Recovery (Schedule 5, page 12).

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

Proposals Submitted and Awards Received

The dollar amount of awards for the first nine months of FY 2016-17 has increased from the same time last year. Management is currently projecting between $130 million and $137 million in total awards for FY 2016-17 – likely exceeding actual awards received in FY 2015-16 of $130 million.

Proposals have also increased for this period (number of proposals submitted, dollar and F&A amounts proposed). The volume of proposal submissions in FY 2016-17 and the increased volume of pending proposals at March 31st support an anticipated increase in awards for FY 2017-18.

Schedule 2 provides a summary of FY 2015-16 proposals and awards and a comparison of actual numbers for the first nine months of the fiscal year through March 2017 as compared to March 2016. This data shows increases in the number and dollar amount proposed, F&A costs proposed, the number and dollar amounts of pending proposals and F&A dollars awarded. Based on a detailed analysis that includes timing of awards and pending proposals, management anticipates that the increasing trends will continue in FY 2017-18. However, we continue to carefully monitor the federal outlook for funding changes under the new administration.

Schedule 2

Proposals Submitted

	Actual	**July 1 - March 31**		**Increase**	**% Increase**
	FY 2015-16	FY 2016-17	FY 2015-16	**(Decrease)**	**(Decrease)**
# Proposals Submitted	1167	825	802	23	2.9%
$ Amount Proposed	$ 215,660,158	$ 154,992,310	$ 145,309,535	$ 9,682,775	6.7%
$ F&A Costs Proposed	40,376,686	30,380,439	27,970,408	2,410,031	8.6%
% F&A Costs Awarded/Direct Costs	23.04%	24.38%	23.84%		

Proposals Pending

	Actual	**July 1 - March 31**		**Increase**	**% Increase**
	FY 2015-16	FY 2016-17	FY 2015-16	**(Decrease)**	**(Decrease)**
# of Pending Proposals	440	515	437	78	17.9%
$ Amount Pending	$ 83,256,455	$ 98,216,200	$ 77,836,828	$ 20,379,372	26.2%
$ F&A Costs Pending	18,522,122	22,051,066	18,480,415	3,570,651	19.3%
% F&A Costs Awarded/Direct Costs	28.61%	28.95%	31.13%		

Awards Received

	Actual	**July 1 - March 31**		**Increase**	**% Increase**
	FY 2015-16	FY 2016-17	FY 2015-16	**(Decrease)**	**(Decrease)**
# Awards Received	707	529	466	63	13.5%
$ Awards Received	$ 129,901,774	$ 96,667,036	$ 90,382,858	$ 6,284,178	7.0%
$ F&A Costs Awarded	20,551,772	15,060,937	14,372,143	688,794	4.8%
% F&A Costs Awarded/Direct Costs	18.79%	18.46%	18.91%		

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***, SDSU Research Foundation has more dollars in WIP at this time than in the prior year. The F&A costs also indicate a positive trend with an increase of $1,207,622 or 7.2% increase from prior year.

Schedule 3

Work in Process

	YTD FY 2016-17 March 31, 2017 TOTAL	YTD FY 2015-16 March 31, 2016 TOTAL	$ Increase (Decrease)	% Increase (Decrease)
Salaries	28,113,432	26,211,652	1,901,780	7.3%
Benefits	10,644,570	10,357,096	287,474	2.8%
Other Direct	24,299,111	22,955,236	1,343,875	5.9%
MTDC Subtotal	63,057,113	59,523,984	3,533,129	5.9%
Equipment	2,263,151	3,573,470	(1,310,319)	(36.7%)
Student Support	5,502,953	5,943,961	(441,008)	(7.4%)
Subcontracts	11,471,716	14,209,889	(2,738,173)	(19.3%)
Other Direct	346,014	72,580	273,434	376.7%
Other Subtotal	19,583,834	23,799,900	(4,216,066)	(17.7%)
Total Direct	82,640,947	83,323,884	(682,937)	(0.8%)
F&A Costs	17,946,837	16,739,215	1,207,622	7.2%
Total Costs	100,587,784	100,063,099	524,685	0.5%
F&A Costs/MTDC	28.46%	28.12%		

Spending Trends

F&A is earned when principal investigators/project directors actually spend their awarded funds. The expected direct cost expenditure level for FY 2017-18 is dependent on the submission of proposals, receipt of awards, and the spending schedule related to the awards.

Schedule 4 provides a comparison result for the nine months ending March 31, 2017 to those of March 2016. Spending has increased over prior years by $3,345,351 or 5.1% resulting in increased F&A earned of $959,967 or 7.5%.

Schedule 4

Spending Trends

	YTD FY 2016-17 March 31, 2017 TOTAL	YTD FY 2015-16 March 31, 2016 TOTAL	$ Increase (Decrease)	% Increase (Decrease)
Salaries	29,010,992	27,332,841	1,678,151	6.2%
Benefits	8,829,433	8,341,017	488,416	5.9%
Other Direct	12,988,151	11,559,358	1,428,793	12.4%
MTDC Subtotal	50,828,576	47,233,216	3,595,360	7.6%
Equipment	1,676,940	1,848,245	(171,305)	(9.8%)
Student Support	4,846,217	5,275,624	(429,407)	(8.1%)
Subcontracts	7,874,522	6,272,545	1,601,977	25.5%
Other Direct	4,160,031	5,411,305	(1,251,274)	(23.1%)
Other Subtotal	18,557,710	18,807,719	(250,009)	(1.3%)
Total Direct	69,386,286	66,040,935	3,345,351	5.1%
F&A Costs	13,767,915	12,807,948	959,967	7.5%
Total Costs	83,154,201	78,848,883	4,305,318	5.5%
F&A Costs/MTDC	27.09%	27.12%		

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 2017-18. F&A cost recovery is the primary source of the research foundation's general fund revenue. The research foundation's negotiated cost recovery rate for FY 2017-18 is 50.5%, an increase of 0.5%. The effective rates for the past ten years and projections for FY 2016-17 and FY 2017-18 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 **	116,677,000	70,960,825	26,916,175	18,800,000	26.5%	19.2%
2017-18 **	118,800,000	73,204,000	25,796,000	19,800,000	27.1%	20.0%

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

Self-Support Programs Fees ($3,268,000)

Self-Support Programs Fees for FY 2017-18 ($3,268,000) reflects an increase of $64,000 or 2.0% over FY 2016-17 mid-year projection as well as an increase of $39,792 or 1.2% compared to FY 2015-16 actuals. Self-support programs fees are earned on expenditures for programs in the College of Extended Studies, KPBS and various academic departmental accounts. Fees earned for providing services to The Campanile Foundation and its gift funds are also included in this category. The KPBS MOU agreement has an annual escalation percentage of 3% which primarily accounts for the increase. No increase was considered for the College of Extended Studies, as their activity has been declining.

Rents ($5,696,000)

Total Rents for FY 2017-18 ($5,696,000) reflects an increase of $89,000 or 1.6% over FY 2016-17 mid-year projection as well as a decrease of $94,453 or 1.6% compared to FY 2015-16 actuals. See ***Appendix A*** for further detail. The category of funds identified as rents includes rents collected as a direct cost from grants and contracts programs where full F&A costs are not recovered as well as revenues collected from commercial and university sources.

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

Total TTO Revenue for FY 2017-18 ($106,000) reflects a decrease of $33,000 or 23.7% over FY 2016-17 mid-year projection as well as a decrease of $77,870 or 42.4% compared to FY 2015-16 actuals. 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 as well as anticipated legal reimbursements. Fluctuations in TTO revenue received by the research foundation are dominantly caused by fluctuations in legal expense reimbursements, which are distributed 100% to the research foundation.

The downward trend in TTO revenue is also partially attributable to a revenue boost provided in FY 2015-16 by the sale of Cognitive Retraining Technologies, Inc. (our equity position was $50,000; $48,804 of past patent expenses was also reimbursed). Several one-time legal reimbursements are expected in FY 2016-17 that will not reoccur in FY 2017-18, leading to a projected decrease in reimbursed legal expenses in FY 2017-18. The decrease in legal revenues is anticipated to be offset by a corresponding decrease in legal expenses.

Investments ($1,145,000)

Investment Income for FY 2017-18 ($1,145,000) reflects a decrease of $55,000 or 4.6% over FY 2016-17 mid-year projection as well as a decrease of $157,511 or 12.1% compared to FY 2015-16 actuals. 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.

The decrease in investment income reflects an expected decrease in cash available for investment. The research foundation anticipates transferring between $25 million and $30 million during FY 2017-18 for quarterly payments to SDSU to assist with the financing of the Engineering and Interdisciplinary Sciences Complex. The source of these funds is the College of Extended Studies (CES) cash reserves generated from its non-credit course offerings held at the research foundation.

The decrease in investment income due to lower cash investments has been partially offset by the reduction in banking fees, approximately $100,000, due to the banking conversion in FY 2016-17; additionally, SDSURF reduced investment management fees by approximately $35,000 by transferring its short term investments to a new firm with lower fees and higher quality investments.

USE OF FUNDS

Basic Support

Administration & Operations ($15,500,000)

The Administration and Operations Expense for FY 2017-18 ($15,500,000) reflects an increase of $880,000 or 6.0% over FY 2016-17 mid-year projection as well as an increase of $972,369 or 6.7% compared to FY 2015-16 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.

Salaries increased by $619,000 over mid-year FY 2016-17 projection. The details of the increase are outlined on page 16. Merit increases account for $410,000 of the total increase:

- $150,000 of the increase relates to the full year of merits provided to staff effective January 1, 2017. The impact to the FY 2016-17 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.
- $260,000 of the increase relates to merits anticipated to be provided to staff effective January 1, 2018 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 including providing no increases during years where funds were available at the research foundation but not at the university.
  - Over the past ten years, SDSURF has provided the following increases to its employees:

2008	0%	2013	0%
2009	0%	2014	2%
2010	0%	2015	3%
2011	0%	2016	2%
2012	0%	2017	3%

  - During this ten-year period, SDSURF staff, along with SDSU staff, only received

10% in total or an average of 1% per year. This rate falls below cost of living and general market increases.

- The minimal wage increases have resulted in high turnover and impacted SDSURF's ability to provide efficient and high quality services to faculty and staff:
  - The turnover in the last few years has been high due to wage levels and workload issues.
  - The average time to fill positions has increased significantly – 73 days in calendar year 2016 for Sponsored Research Division – significantly impacting our ability to provide timely service.
  - We continue to see staff leave SDSURF after being trained, for higher paying positions often at UCSD, Rady's Hospital and the Burnham Research Institute.
  - The overall turnover for the central staff at SDSURF was approximately 18.5% in calendar year 2016 and 2015 with a significant amount of turnover attributable to our pay scale. The pre-award office experienced turnover of 48% in FY 2015-16 alone.
- We are also seeing an increasing number of retirements with our more seasoned staff; we are having difficulty backfilling these positions at our current pay scale.

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 2016-17	
	FY 2015-16	% of Total	FY 2016-17	% of Total	FY 2016-17	% of Total	FY 2017-18	% of Total	$ Increase (Decrease)	% Increase (Decrease)
Personnel Costs:										
Salaries	9,190,141	63.3%	9,160,000	62.4%	8,946,000	61.2%	9,711,000	62.5%	765,000	8.6%
Unallocated Savings	-	0.0%	(103,000)	-0.7%	-	0.0%	(146,000)	(0.9%)	(146,000)	0.0%
Benefits *	3,297,092	22.7%	3,485,000	23.8%	3,386,000	23.2%	3,772,000	24.3%	386,000	11.4%
	12,487,233	86%	12,645,000	86.2%	12,332,000	84.4%	13,337,000	86.1%	1,005,000	8.2%
Operating Costs:										
Legal	208,727	1.4%	258,000	1.8%	369,000	2.5%	295,000	1.9%	(74,000)	(20.1%)
Insurance	112,972	0.8%	97,000	0.7%	106,000	0.7%	111,000	0.7%	5,000	4.7%
Supplies	69,366	0.5%	67,000	0.5%	71,000	0.5%	66,000	0.4%	(5,000)	(7.0%)
Equipment	148,195	1.0%	33,000	0.2%	42,000	0.3%	23,000	0.2%	(19,000)	(45.2%)
Travel	67,441	0.5%	95,000	0.7%	87,000	0.6%	92,000	0.6%	5,000	5.8%
Contracted Services **	656,809	4.5%	830,000	5.7%	898,000	6.2%	885,000	5.7%	(13,000)	(1.5%)
Audit	256,815	1.8%	305,000	2.1%	291,000	2%	292,000	1.9%	1,000	0.3%
Other ***	520,073	3.6%	443,000	3.0%	424,000	3%	399,000	2.6%	(25,000)	(5.9%)
	2,040,398	14.0%	2,025,000	13.8%	2,288,000	15.7%	2,163,000	14.0%	(125,000)	(5.5%)
	14,527,631	100.0%	14,670,000	100.0%	14,620,000	100.0%	15,500,000	100.0%	880,000	6.0%

** Retiree medical is included in this line.*

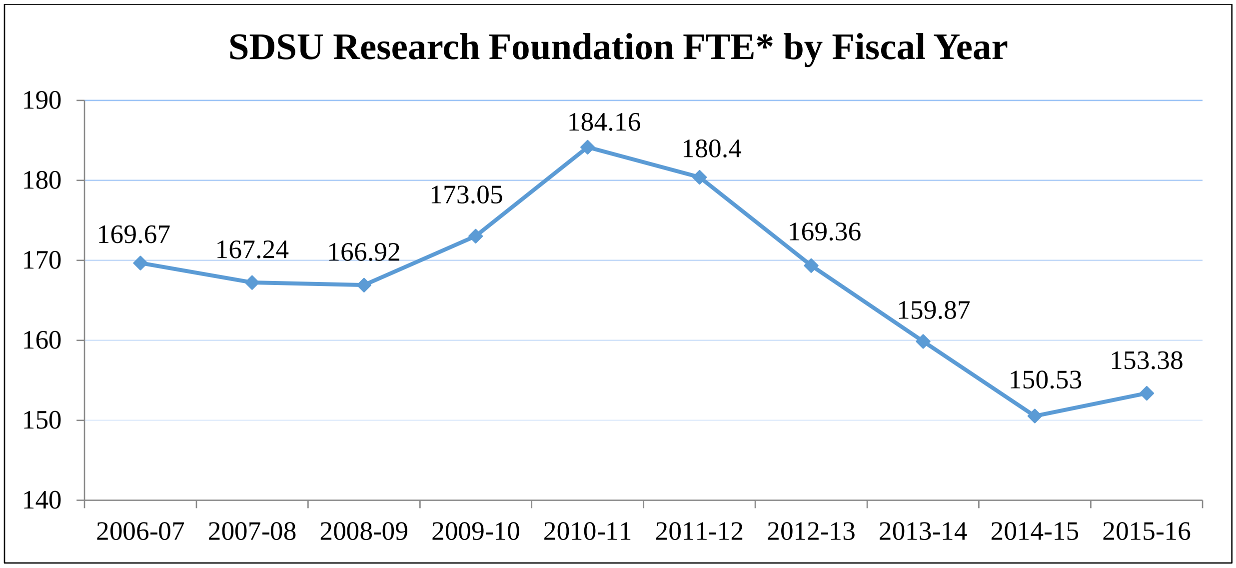
*** Contracted services include contracts for computer maintenance, background checks, recruiting, and other consultant services.*

**** 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 $13,337,000, reflecting an increase of $619,000 in Salaries and $386,000 in Benefits for a total increase of $1,005,000 or 8.2% over the mid-year projection. Management continues to look closely at staffing. As retirements and turnover lead to vacancies, reorganization to absorb duties or restructure responsibilities with existing staff may be possible. However, as the volume of grants and contracts increases, so does the workload of the teams that handle the new business. The central staff FTE, ***as calculated based on payroll hours***, has decreased from a high of 184.2 in FY 2010-11 (the ARRA years of increased funding) to 153.4 in FY 2015-16 or a 16.7% reduction.

Schedule 7 shows central staff FTE for the last nine years ***as calculated based on payroll expenses***.

Schedule 7



*as a calculation of payroll hours

- Salaries increase by $619,000 due to the following:
    - $150,000 – as of January 1, 2017, SDSURF was provided a cost of living adjustment, consistent with the university’s. Since this adjustment was given for only half of FY 2016-17, the second half of the increase is reflected here as a budget increase.
    - $260,000 – as of January 1, 2018, SDSURF proposes to provide an increase to SDSURF staff to follow the university’s agreed-upon increase, which will be effective July 1, 2017. This increase is budgeted for only half of the year at SDSURF with an effective date of January 1, 2018.

- $75,000 – through FY 2016-17, SDSURF had a part-time CFO under a shared service agreement with The Campanile Foundation. In FY 2017-18, we will have a full-time CFO.

- $65,000 – proposed hire of a new Sponsored Research Contract Specialist. When the co-director retired in July 2012, the director of sponsored research contracting and compliance absorbed the responsibilities of that position, including negotiation and approval of all incoming sponsored program contracts and amendments, as well as negotiation and approval of sub agreements to collaborating organizations. The director is the sole source of expertise with no dedicated backup creating organizational vulnerability and risk. Research volume has been increasing and we currently negotiate approximately 350 contracts and 200 sub agreements and corresponding amendments annually. The addition of the contract specialist will help with a timely review and negotiation of sponsored research contracts and sub agreements. The contract specialist will have primary responsibility for the following:

    - Review, negotiation and acceptance of sponsored research agreements.

    - Negotiation and approval of sub agreements to collaborating organizations

    - Coordination with export control officer on international agreements or contracts requiring export control review

- $50,000 – proposed hire of a new full-time Director of Sponsored Research Advancement reporting to the Vice President for Research. The current director charges 50% of his time to this position and will be retiring effective June 30, 2017. The Vice President plans to fill this position with a full-time director. In addition to the tasks already performed by the current position, this upgraded position will also be responsible for the following:

    - 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. This position will assist with designing, conducting and participating in specific grant development workshops with faculty researchers.

    - 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 the government, private, and non-profit arenas with a focus on coordination of large multi-investigator, multi-disciplinary, multi-institutional research proposals.

- $12,000 – the Technology Transfer Office has proposed to upgrade a position, resulting in this salary increase. In addition to the tasks already performed by the current position, this upgraded position will:
    - Serve as a conduit to CONNECT and regional investor groups to market and develop SDSU technologies
    - Plan and execute community engagement activities, such as "Innovation Days"
    - Provide training to early faculty innovators in evidence-based entrepreneurship.
    - Provide expertise in patent prosecution and IP rights protection.
- $153,000 – this amount reflects one-time salary savings from open positions that took time to fill in FY 2016-17 that will not be realized again in FY 2017-18. As an example, the SDSURF Associate Executive Director of Sponsored Research served both in this role and the interim Executive Director role, generating significant salary savings for much of the year.
- Unallocated Savings – $146,000 of anticipated savings is reflected as an offset to the increased salary expenses. These savings will be realized from open positions during the year. Management will continue to look for other opportunities to realize these savings.

- Benefits budget totals $3,772,000, reflecting an increase of $386,000 or 11.4% 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. Based upon discussions with our insurance brokers, we have included an estimated 10% increase in the cost of medical benefits effective January 1, 2018.

- Legal budget totals $295,000 and covers SDSURF overall legal needs as well as Technology Transfer Office legal expenses related to patent processes. A decrease of $74,000 or 20.0% over the mid-year budget is projected. In FY 2016-17, a legal settlement included a $75,000 deductible; we do not anticipate another settlement of this magnitude for FY 2017-18. Without this settlement, legal expenses are consistent between mid-year projection of FY 2016-17 and the proposed budget for FY 2017-18.

- Insurance budget totals $111,000, reflecting an increase of $5,000 or 4.7% over the mid-year budget projection, based upon updated quotes from our insurance carriers.

- Supplies budget totals $66,000, reflecting a decrease of $5,000 or 7.0% over the mid-year budget projection, due to continued efforts to reduce the use of paper via electronic initiatives.

- Equipment budget totals $23,000, reflecting a decrease of $19,000 or 45.2% over the mid-year budget projection, due to a reduction in computer purchases. Computers are on a regular replacement schedule after warranties expire. However, due to the number of computers purchased in FY 2016-17, the budget in FY 2017-18 was reduced.

- Travel budget totals $92,000, reflecting an increase of $5,000 or 5.8% over the mid-year budget projection, due to increased travel for the Auxiliary Organization Association (AOA) annual conference. In FY 2016-17, the conference was held in San Diego, eliminating travel costs; the FY 2017-18 conference will be in Sacramento.

- Contracted Services budget totals $885,000, reflecting a decrease of $13,000 or 1.5% over the mid-year budget projection. The FY 2016-17 budget included contracted temporary help to backfill vacant positions; we do not anticipate incurring these costs in FY 2017-18.

- Audit budget totals $292,000, reflecting an increase of $1,000 or 0.3% over the mid-year budget due to a previously agreed-to increase of $7,800 by the audit firm of Grant Thornton LLP. This fee increase is offset by our change in audit firms from Grant Thornton LLP to Holthouse Carlin & Van Trigt LLP for our benefit plans, resulting in a decrease of $4,200 as well as savings in consulting services of $3,600.

Facilities Expenses ($10,529,000)

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 2017-18 ($10,529,000) reflects an increase of $129,000 or 1.2% over FY 2016-17 mid-year projection and a decrease of $37,585 or 0.4% compared to FY 2015-16 actuals. See ***Appendix A*** (page 25) for more detail on the facilities budget.

ALLOCATIONS

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

Direct Support of Research ($2,973,000)

Direct Support of Research for FY 2017-18 ($2,973,000) reflects a decrease of $1,000 or 0.0% over FY 2016-17 mid-year projection and a decrease of $208,756 or 6.6% compared to FY 2015-16 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. These reductions are due to the reduced bad debt allocation, elimination of the Professor's Helping Professors (PHP)/ Grant and Research Enterprise Writing (GREW) Institute mentor allocation, and reduction of the BioScience Center allocation.

Bad Debt Allocation ($0)

Bad Debt Allocation for FY 2017-18 ($0) reflects a decrease of $30,000 or 100% over FY 2016-17 mid-year projection and a decrease of $177,110 or 100% compared to FY 2015-16 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 2017-18.

Research Support Funds ($2,781,000)

Research Support Funds for FY 2017-18 ($2,781,000) reflects an increase of $50,000 or 1.8% over FY 2016-17 mid-year projection and a decrease of $14,456 or 0.5% compared to FY 2015-16 actuals. The proposed FY 2017-18 budget funds 100% of the formula. As in previous years, $2,225,000 of the budget amount will be provided at the beginning of FY 2017-18. The remaining 20% ($556,000) will be distributed as part of the mid-year FY 2017-18 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.

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 2017-18 distributions of RSF are based on the amount of actual F&A generated in FY 2016-17. Therefore, if F&A exceeds the FY 2016-17 proposed mid-year budget and/or the volume of full F&A awards increases, the RSF will be increased at the FY 2017-18 mid-year budget update.

University Grants Program ($92,000)

University Grants Program for FY 2017-18 ($92,000) is consistent with the FY 2016-17 mid-year projection and FY 2015-16 actuals. These funds are allocated in support of the university Grants Program (UGP). The UGP is administered by the university and supports scholarly research; assists faculty at lower ranks to meet qualifications for retention, tenure, and promotion; permits faculty to bring advanced projects to conclusion; and helps faculty develop research programs that may be competitive for extramural funding.

Professors Helping Professors/Grant and Research Enterprise Writing Institute ($0)

Professors Helping Professors (PHP)/Grant and Research Enterprise Writing (GREW) Institute Allocation for FY 2017-18 ($0) reflects a decrease of $17,000 or 100% over the FY 2016-17 mid-year projection and is consistent with FY 2015-16 actuals. The GREW allocation originated from the PHP program which paired senior and junior faculty to develop proposals. The PHP program has been replaced with the GREW program which provides a more robust mentoring and grant development program for junior and mid-career faculty. SDSURF's PHP allocation was repurposed in the event funds were needed to support the GREW program, but was not utilized. Going forward, the university has agreed to pick up this cost as the SDSURF allocation was just a small part of the overall program.

BioScience Center Development ($6,000)

BioScience Center Development allocation for FY 2017-18 ($6,000) reflects a decrease of $4,000 or 40.0% over FY 2016-17 mid-year projection and a decrease of $17,210 or 74.1% over FY 2015-16 actuals. The BioScience Center (BSC) allocation supports costs associated with the center. The reduction is a result of decreased grant activity following the departure of the BSC director. The university has recruitments underway for new grant active faculty and endowed chair positions to be located in the BioScience Center.

Biology PI Administrative Support ($94,000)

Biology PI Administrative Support FY 2017-18 ($94,000) is consistent with FY 2016-17 mid-year projection and FY 2015-16 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.

<u>Support of Research Infrastructure ($751,000)</u>

Support of Research Infrastructure for FY 2017-18 ($751,000) reflects an increase of $17,000 or 2.3% over FY 2016-17 mid-year projection and a decrease of $77,577 or 9.4% compared to FY 2015-16 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 ($406,000)

Project Facilities and Equipment Support for FY 2017-18 ($406,000) reflects a decrease of $44,000 or 9.8% over FY 2016-17 mid-year projection and a decrease of $29,682 or 7.9% compared to FY 2015-16 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 is typically required immediately upon notification of a new award. The reduction in Project Facilities and Equipment Support is due to the following:

- Payment of the McAfee license fee for all projects in FY 2016-17 covered three years. The fee will not occur again until FY 2019-20.

- Completion of two expansion/improvement projects for faculty in the College of Arts and Letters and College of Engineering in FY 2016-17.

Research Support - Library ($50,000)

The Library allocation for FY 2017-18 ($50,000) reflects no change from FY 2016-17 mid-year projection and FY 2015-16 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 ($1,215,000)

Research Compliance for FY 2017-18 ($1,215,000) reflects an increase of $61,000 or 5.3% over FY 2016-17 mid-year projection and a decrease of $112,475 or 8.5% compared to FY 2015-16 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 FY 2016-17 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 ($1,000,000)

Waiver of Certain University Allocations for FY 2017-18 ($1,000,000) is consistent with FY 2016-17 mid-year projection and FY 2015-16 actuals. The university has generously agreed to a continued waiver of $1,000,000 in FY 2017-18.

University Research Space ($80,000)

The University Research Space for FY 2017-18 ($80,000) is consistent with FY 2016-17 mid-year projection and reflects an increase of $5,216 or 7.0% compared to FY 2015-16 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.

<u>Investments in Enhanced Service Initiatives ($262,000)</u>

Investments in Enhanced Service Initiatives for FY 2017-18 ($262,000) is consistent with FY 2016-17 mid-year projection but represents a decrease of $175,000 or 40.1% compared to FY 2015-16 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 2017-18 ($100,000) is consistent with FY 2016-17 mid-year projection and reflects a decrease of $175,000 or 63.6% compared to FY 2015-16 actuals. Funding for FY 2017-18 includes investments for the next electronic initiatives identified as critical priorities in order to progress toward the goal of paperless processing by 2018. In FY 2016-17, the funding allocated by the board was invested in initiatives supporting improved services for faculty and staff and streamlined operations. Highlights include the following:

- **Electronic Personnel Action (E-PAS) –** this functionality in PI Profile now automates over 60 job change workflows. PIs/project directors can easily query active employees and job appointments in PI Profile, and initiate and/or approve personnel changes/actions such as end position, extend position, change funding source. Electronic routing and approvals and built-in error checking reduces processing time from days to hours, reduces error rates and should reduce the need for late payroll adjustments.
- **Enhanced Scholarship and Endowment Reporting for The Campanile Foundation (TCF) –** making financial endowment reports available quarterly to better steward donors. Seven new reports were published for TCF fund administrators that significantly streamlined the reconciliation and data review process so that it is easier to accomplish and can be done on a quarterly, rather than annual basis.
- **Electronic Fixed Asset Inventory –** this functionality in PI Profile allows designated asset custodians to easily complete biennial physical inventories required by federal regulations. The new on-line system replaced paper-based processes and saves both custodians and the fixed assets administrator time and helps improve accuracy.
- **InfoEd to Banner proposal set-up automated –** a new program automatically processes proposal data from the InfoEd proposal development system and imports it into the Banner finance system for post-award administration, saving approximately 900 hours of time spent on manual data entry per year. (Note: A data entry position was eliminated in the FY 2016-17 budget in anticipation of this enhancement.)

The FY 2017-18 allocation will be used for the following:

- Programming of additional Electronic Personnel Action workflows, including the faculty overload appointment process, automating feeds into the HR system and reducing manual data entry
- Reporting enhancements supporting data-driven decision making including investment in a new reporting solution to replace existing end-of-life tools
- Preliminary activities required to automate procurement, receiving and payable workflows.

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

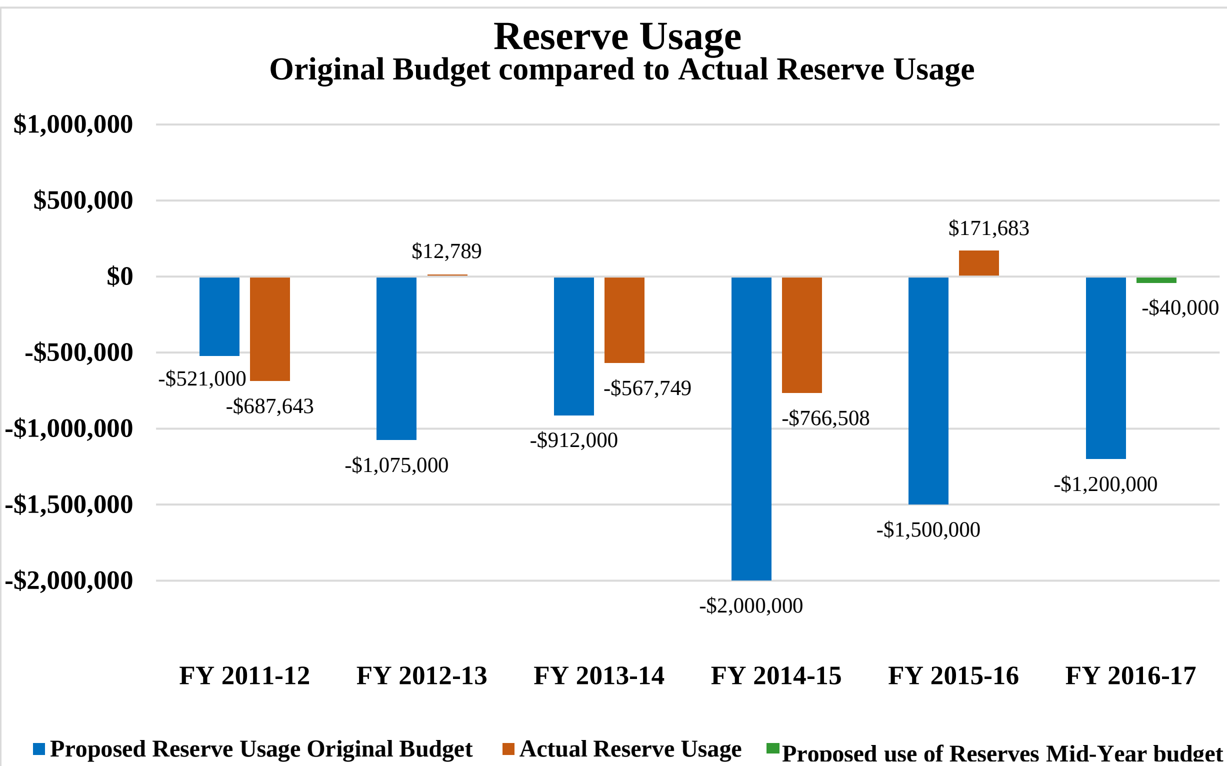
The Washington D.C. Representation for FY 2017-18 ($162,000) is consistent with FY 2016-17 mid-year projection and FY 2015-16 actuals. The research foundation engages the firm of Carpi & Clay to advise the university on changes in federal policy related to sponsored programs and to identify specialized funding opportunities for the university.

RESERVES

Net Funds to (from) Reserves ($0)

The budget reflects a balanced budget for FY 2017-18 with zero needed from reserves – Source of Funds equals Use of Funds. This is the first year we have planned for a balanced budget without utilizing reserves since FY 2010-11. The improved 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.

The chart below shows the use of reserves proposed in the Original General Fund Budget each year since FY 2011-12, the actual use of reserves through FY 2015-16 and the proposed use of reserves in the mid-year budget for FY 2016-17. This chart reflects the reduction in use of reserves over time and demonstrates the careful stewardship of funds in order to minimize use of reserves since FY 2012-13.



2012-13 – includes refinancing of CSU system-wide revenue bonds and corresponding reduction of admin/operations and facilities staffing due to transfer of property to Aztec Shops
2015-16 – Additional $1.5 million of revenue due to increased grant revenue and investment income.

GENERAL FUND BUDGET

APPENDIX A

FACILITIES

BACKGROUND

Historically, SDSU Research Foundation has acquired, constructed and managed real property adjacent to campus 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 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.
- *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 - as well as the Lavin Entrepreneurship Center. The KPBS/Gateway building will transfer to the university upon full payment of the related bond in November 2022.
- *Coastal Waters Lab.* Located on land that was previously part of the Naval Training Center in San Diego, this building and adjacent outdoor laboratories house the SDSU Coastal and Marine Institute Laboratory and the U.S. Geological Survey, a major tenant that occupies three fourths of the building.
- *Bioscience Center.* The university and research foundation partnered to develop a novel approach to finance and construct this 30,000 square-foot research facility.
- *Field Stations.* These include Sky Oaks, a multidisciplinary facility for studying the ecology, geology, soils, and hydrology of chaparral and other Mediterranean-type ecosystems; and the Santa Margarita Ecological Reserve (SMER), an outdoor research and education laboratory and classroom. SMER houses the first five miles of the Santa Margarita River, serves as the linkage between the Santa Ana and Palomar Mountains, and provides the habitat for some very unique and endangered species.

RENTAL INCOME

Total Rental Income for FY 2017-18 ($5,696,000) reflects an increase of $89,000 or 1.6% over FY 2016-17 mid-year projection as well as a decrease of $94,453 or 1.6% compared to FY 2015-16 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 ($864,000)
Program Facilities rental income for FY 2017-18 ($864,000) reflects no change over FY 2016-17 mid-year projection as well as an increase of $2,887 or 0.3% compared to FY 2015-16 actuals. 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 ($3,718,000)
Program Facilities rental income for FY 2017-18 ($3,718,000) reflects an increase of $72,000 or 2.0% over FY 2016-17 mid-year projection as well as a decrease of $5,472 or 0.1% compared to FY 2015-16 actuals. Commercial rents are an important element in our off-campus model as these tenants offer income/profits and fill vacancies until space is required for researchers.

University Space ($1,114,000)
University Space rental income for FY 2017-18 ($1,114,000) reflects an increase of $17,000 or 1.5% over FY 2016-17 mid-year projection as well as a decrease of $91,868 or 7.6% compared to FY 2015-16 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 and the Center for Community Counseling & Engagement. Rents are paid by the university and are also discounted.

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 ($6,692,000)

Facilities Operating Expenses for FY 2017-18 ($6,692,000) reflects an increase of $135,000 or 2.1% over FY 2016-17 mid-year projection as well as an increase of $178,077 or 2.7% compared to FY 2015-16 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 2017-18	
	Actual FY 2015-16	Original FY 2016-17	Mid-Year FY 2016-17	Proposed FY 2017-18	$ Increase (Decrease)	% Increase (Decrease)
Salaries and Benefits	$ 1,782,219	$ 1,711,000	$ 1,736,000	$ 1,811,000	$ 75,000	4.3%
Operational Expenses	95,766	102,000	119,000	91,000	(28,000)	(23.5%)
Vehicles	28,678	39,000	36,000	38,000	2,000	5.6%
Insurance	543,708	570,000	518,000	536,000	18,000	3.5%
Maintenance	154,647	161,000	145,000	150,000	5,000	3.5%
Utilities	1,221,712	1,591,000	1,550,000	1,535,000	(15,000)	(1.0%)
Property Taxes	166,263	174,000	177,000	169,000	(8,000)	(4.5%)
Contracted Services	1,045,212	830,000	847,000	910,000	63,000	7.5%
Leased Space	670,507	674,000	669,000	698,000	29,000	4.3%
University Services/Parking	805,211	885,000	760,000	754,000	(6,000)	(1.6%)
	$ 6,513,923	$ 6,737,000	$ 6,557,000	$ 6,692,000	$ 135,000	2.1%

Following are some of the more significant changes:

- Salaries and Benefits increased $75,000 or 4.3% over mid-year projection. Consistent with administration and operations and comparable to the university, the facilities budget includes the cost-of-living increase for staff that was implemented January 1, 2017 and the anticipated increase comparable to the university that will be effective January 1, 2018.
- Operational Expenses decreased $28,000 or 23.5% due to the reduction in bank fees with the refinance of the working capital line of credit. Previously, the annual fee to the bank for this credit facility was $25,000; with the refinance the fee has been reduced to $5,000 and is now reflected as an offset in the investment income budget as opposed to being in the Facilities budget.

- Insurance increased $18,000 or 3.5% compared to the mid-year projection due to a regular annual increase in property insurance as well as additional increases in premiums resulting from recent SDSURF flood claims.
- Utilities decreased $15,000 or 1.0% 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 decreased $8,000 or 4.5% due to the ground lease of property to Capstone for the new student housing project. Property taxes related to this property will now be paid by the lessee – HSRE – Capstone SD, LLC.
- Contracted Services increased $63,000 or 7.5% due to a regular increase in the annual cost of custodial services, the increase in minimum wage for the custodial team, and an increase in HVAC anticipated repairs.
- Leased Space increased $29,000 or 4.3% due to annual rental fee increases for offsite project locations.
- University Services/Parking decreased $6,000 or 0.8% mainly due to a new parking fee arrangement with the university. In the past, SDSURF paid for the use of the parking garage adjacent to the Gateway Building. Now that the debt on that parking structure has been satisfied, SDSURF is only required to pay for visitor parking on a per permit basis. There were also other minor adjustments on other university services fees to better align with FY 2016-17 actuals.

Facilities Capital Improvements ($235,000)

Facilities Capital Improvements for FY 2017-18 ($235,000) reflects a decrease of $6,000 or 2.5% over FY 2016-17 mid-year projection as well as a decrease of $76,639 or 24.6% compared to FY 2015-16 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.

Note: the city of San Diego is developing the segment of the Naval Training Center Park esplanade that fronts the Coastal Water's Lab and adjacent properties. The lease agreement with the city obligates the research foundation to pay a pro-rata share of the improvement costs. These costs have not been established and no funds have been allocated in the FY 2017-18 budget for this item. Management is monitoring the city's progress on this issue.

Facilities Tenant Improvements ($315,000)

Facilities Tenant Improvements for FY 2017-18 ($315,000) reflects a decrease of $6,000 or 1.9% over FY 2016-17 mid-year projection as well as a decrease of $132,898 or 29.7% compared to FY 2015-16 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 three-five years.

In total, SDSURF has approximately $2.0 million in facilities capital and tenant improvements and equipment that will be amortized through FY 2021-22 via the general fund budget.

Facilities Debt Service ($3,287,000)

Facilities Debt Service for FY 2017-18 ($3,287,000) reflects an increase of $6,000 or 0.2% over FY 2016-17 mid-year projection as well as a decrease of $6,125 or 0.2% compared to FY 2015-16 actuals. 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 2017-18

		Last Payment Date	Facilities Debt Service	Outstanding Debt March 31, 2017
	2010 SRB Bond Issue	Nov-22	$ 507,000	$ 2,835,000
	Gateway Center			
	Internal Financing			
	Sky Park Court	Jun-22	187,000	860,000
	6386 Alvarado Court	Mar-27	236,000	1,850,000
	619 Heber Avenue	Sep-33	12,000	133,000
	6367 Alvarado Court	Mar-40	348,000	4,527,000
*	Bioscience Center Lease	Nov-35	475,000	5,790,000
	2012 SRB Bond Issue	Nov-36	1,522,000	25,200,000
	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			
			$ 3,287,000	$ 41,195,000

* 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 2017-18 which anticipates using $0 from discretionary operating reserves.

Schedule 10

Established Reserves Balances

	Projected Balance 6/30/2017	Projected Activity: GF Allocation	Projected Activity: Activity ①	Projected Balance 6/30/2018
Discretionary				
Operating Reserves				
Income Equalization	500,000	-	-	500,000
Working Capital	2,095,000	-	413,000	2,508,000
Operating Contingency	1,413,000	-	(413,000)	1,000,000
Facilities	960,000	-	-	960,000
Insurance	805,000	-	50,000	855,000
Debt Service	956,000	-	-	956,000
Total Operating	6,729,000	-	50,000	6,779,000
Quasi-Endowments				
General Fund	2,830,000	-	(120,000)	2,710,000
Research Endowment	2,629,000	-	(112,000)	2,517,000
Research Endowment Income	509,000	-	(111,000)	398,000
Total Quasi-Endowment	5,968,000	-	(343,000)	5,625,000
Total Discretionary	12,697,000	-	(293,000)	12,404,000
Non-discretionary				
Employee-Related				
Retiree Medical VEBA Trust	10,205,000	122,000	(134,000)	10,193,000
Employee Fringe Benefits	1,623,000	-	-	1,623,000
Workers' Compensation Insurance	2,709,000	-	(9,000)	2,700,000
Unemployment Insurance	1,861,000	-	39,000	1,900,000
Total Non-discretionary	16,398,000	122,000	(104,000)	16,416,000
Total Reserves	29,095,000	122,000	(397,000)	29,820,000

① Projected transactions for FY 2017-18

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

Discretionary Funds ($12,404,000)

Income Equalization ($500,000)

The budgeted amount for F&A cost recovery each year is only an estimate and represents approximately 66% 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 ($2,508,000)

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 $5,029,000.

Since the balance in this year is less than 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 ($413,000) 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 a part of administering grants and contracts.

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

- Volume of grants and contract activity
- Time between audits
- Continuity of experienced staff and adequacy of internal controls

- Administrative resources devoted to administration of grants and contracts.

The level of this reserve should be equal to one percent of annual grant and contract expenditures. The goal for this reserve is approximately $1,000,000. The activity in this reserve relates to anticipated reimbursements of prior year expenses. Funds were transferred ($413,000) 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.

Insurance ($855,000)

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 2017-18 relates to insurance dividends anticipated in July 2017.

Debt Service ($956,000)

The debt service reserve was established to assist with future debt service payments if needed or to be used in a scenario where the "make whole" provision of the taxable bonds is triggered (i.e. in the event of a sale of one of the associated properties). The goal of the reserve is equal to one year debt service on the bond issues ($2,029,000).

Quasi-Endowment/General Fund ($2,710,000)

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 ($2,517,000)

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 ($398,000)

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 $111,000 noted in the activity column represents a net amount of $112,000 anticipated to be distributed from the research endowments, an estimated $5,500 of earned interest, a withdrawal of approximately $200,000 to fund a University Doctoral Fellowship (to provide a number of competitive, merit based stipends to students in SDSU's most research intensive Ph.D. programs) and a $28,500 distribution to General Fund investment income.

Non-discretionary Funds

Retiree Medical VEBA Trust ($10,193,000)

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 ($1,623,000)

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 fund earned and 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 ($2,700,000)

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 ($1,900,000)

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

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

Unfunded Obligations

SDSU Research Foundation has a total of approximately $7.8 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. The unfunded obligation decreased from $9.8 million due to the upfront payment of $2.0 million in FY 2016-17 from a developer for a pre-paid ground lease for the former Sorority Row site. 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. The research foundation 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.