San Diego State University Research Foundation

General Fund Budget
Fiscal Year 2020-2021

Cover photo
"*Semibalanus Barnacles at Sunset*"
Barnacles and algae wait for the rising tide to submerge them as night falls at 4pm in January, in Sitka, Alaska

Principal investigator: Dr. Luke Miller, biology
Photo courtesy of Dr. Miller

Dr. Luke Miller is an assistant professor of ecology and member of SDSU's Coastal and Marine Institute. His research focuses on ecophysiology and biomechanics, particularly examining the effects of thermal stress, climate change, and species interactions in rocky intertidal communities.
Much of his research has focused on northeastern Pacific rocky intertidal habitats from California to Alaska, but he has also worked on New England rocky shore communities, on Antarctic scallops, and in kelp forests and estuary habitats.

Dr. Miller's research is supported by the National Science Foundation.
https://lab.lukemiller.org/

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MESSAGE FROM THE EXECUTIVE DIRECTOR

First, a word of thanks to our board members and university leaders who have supported and partnered with the research foundation during this unprecedented time.

Of special note is the creativity and resourcefulness with which our staff seamlessly transitioned to teleworking. For example, an information systems team was able to develop and implement an electronic submission system for purchase orders and journal vouchers – within just four days. And more proposals were submitted (remotely) in March of this year than in March of the previous year. Our employees are resilient and their commitment to our organization, researchers and SDSU is commendable.

I am pleased to present the fiscal year 2020-21 proposed budget of $33,487,000 on behalf of our management team. This budget reflects our preliminary response to the substantial "unknowns" presented by COVID-19 and will require a closer and more frequent review over the course of the next year as the impacts become clearer. Despite this uncertainty, we have crafted the budget with the following priorities in mind:

- Our ongoing mission to serve SDSU and support SDSU researchers
- Continued investment in and support of research priorities
- Focus on streamlining processes and creating efficiencies
- Strategic investments in staff and systems to enhance service and protect the research infrastructure
- Careful use of reserves to bridge short term impacts of COVID-19.

While it is not possible to forecast all impacts at this time, we have already seen pauses in research activity due to limited access to facilities and the halt of research involving human subjects. We are also receiving requests for deferment of rent payments and are working closely with commercial tenants who may not be able to financially recover from the impacts to their businesses. Due to these factors, this budget assumes the following reductions:

- A drop in F&A revenues
- A drop in facilities rents
- A decrease in investment income
- A decrease in self-support fees
- No compensation increases budgeted for the coming year
- A 25% reduction in all travel and professional development costs
- An additional $500,000 contingency for potential COVID-19 cost disallowances
- Use of up to $3,350,100 from reserves if needed to fund revenue contingencies.

On the positive side, we continue to fund all existing research allocations.

We are working with the university and our Washington representation to explore potential stimulus funding opportunities. Faculty have already submitted six COVID-19 related proposals; six more are in process; and more than sixty faculty members have self-identified as being interested in and able to conduct COVID-19 research. We were notified of SDSU's first COVID-19 award on April 20, 2020. Dr. Megan Walsh, associate professor in public affairs, studies the health and sanitation needs of people experiencing homelessness. She received $25,000 in emergency COVID-19 research seed funding from California's Tobacco-related Disease Research Program to examine "Service Utilization and Survival Strategies of the Unsheltered Homeless During the COVID-19 Pandemic."

Moving Forward

We know FY 2020-21 will be a challenging year. We are mirroring university policies wherever possible and working with our colleagues in a new and even more closely collaborative way. While it is impossible to know, we hope to start the fiscal year with everyone healthy and staff back in our offices and researchers back in their labs. At this time, we are teaming with the university to see how research activities could resume once it is safe to do so. We are working with staff, researchers, tenants, sponsors, and university colleagues to ensure we, and they have the best information and resources possible as we continue this unique journey.

We anticipate revisiting this budget multiple times over the next months as the impacts of COVID-19 become more evident. A revised budget will be presented at the September board meeting.

Finally, a note of thanks and appreciation to Vice President for Research Steve Welter who has announced his intention to retire at the end of the summer and return to teaching under the university's faculty early retirement program. Steve has been a strong leader, partner, and friend to the research foundation. We wish him well in his retirement.

Sincerely,

Michèle G. Goetz
Associate Vice President and Executive Director
April 23, 2020

General Fund Budget FY 2020-21

	FY 2019-20 Original	FY 2019-20 Mid-Year	FY 2020-21 Proposed
SOURCE OF FUNDS			
Unrestricted Revenue:			
Grants & Contracts F&A	21,100,000	21,300,000	21,902,000
F&A Contingency	-	-	(2,190,200)
Self-Support Programs Fees	2,896,000	2,824,000	2,712,000
Facilities Rents	6,518,000	6,518,000	6,599,000
Rent Contingency	-	-	(659,900)
TTO Revenue	103,000	103,000	103,000
Investments	1,615,000	1,725,000	1,698,000
Total Unrestricted Revenue	**32,232,000**	**32,470,000**	**30,163,900**
USE OF FUNDS			
Basic Support			
Administration & Operations	15,310,000	15,119,000	15,788,000
Facilities Expenses	10,942,000	11,052,000	11,156,000
Total Basic Support	**26,252,000**	**26,171,000**	**26,944,000**
Net Remaining after Providing Basic Support	5,980,000	6,299,000	3,219,900
Allocations for Enhanced Program Support:			
Direct Support of Research:			
Research Support Funds	2,780,000	2,865,000	2,815,000
University Grants Program	92,000	92,000	92,000
Biology PI Administrative Support	94,000	94,000	94,000
Write-off Contingency	-	-	500,000
	2,966,000	3,051,000	3,501,000
Support of Research Infrastructure:			
Project Facilities and Equipment Support	740,000	849,000	523,000
F&A - Library Study and Rate Negotiation	-	-	89,000
Research Support - Library	50,000	50,000	50,000
Research Advancement & TTO	1,283,000	1,283,000	1,390,000
Research Compliance	1,261,000	1,261,000	-
Waiver of Certain Research Compliance Allocations	(650,000)	(650,000)	-
Research Endowment Distribution	-	-	600,000
University Research Space	70,000	70,000	70,000
	2,754,000	2,863,000	2,722,000
Investment in Enhanced Service Initiatives:			
Systems Infrastructure	200,000	200,000	200,000
Washington D. C. Representation	60,000	135,000	120,000
	260,000	335,000	320,000
Total Allocations for Enhanced Program Support	5,980,000	6,249,000	6,543,000
Total Basic Support and Allocations	**32,232,000**	**32,420,000**	**33,487,000**
SOURCE OF FUNDS BEFORE CONTINGENCY	**32,232,000**	**32,470,000**	**33,014,000**
CONTINGENCY			**(2,850,100)**
TOTAL SOURCE OF FUNDS AFTER CONTINGENCY			**30,163,900**
USE OF FUNDS BEFORE CONTINGENCY			**32,987,000**
CONTINGENCY			**500,000**
TOTAL USE OF FUNDS	**32,232,000**	**32,420,000**	**33,487,000**
Net Funds to (from) Reserves	-	**50,000**	**(3,323,100)**
CONTINGENCY INCLUDED IN BUDGET			**3,350,100**

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 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.

Budgeting During a Pandemic (COVID-19)

Due to the world-wide COVID-19 pandemic and California's "stay at home" order, budgeting for FY 2020-21 is more uncertain and challenging than in previous years. We are viewing our current pandemic state as the "new normal." Typically, we budget for the next fiscal year making many assumptions for source of funds whereas use of funds can be more predictable. Due to COVID-19 and our temporary new normal, issues we are considering and adapting to during this uncertain time include:

- With only certain faculty and staff defined as "essential" and able to access campus facilities including SDSURF properties, how much will research slow down, especially for those projects involving human subjects and community interactions?

- Will the current temporary "new normal" cause a reduction in sponsored research?
  - The guidance from most federal agencies allows PIs and their staff to continue to be paid even if the project/research is not being performed. How will non-federal agencies respond to these costs?
  - The guidance also indicates that additional supplemental funds may not be provided; thus, projects/research requiring supplemental support may not be completed. How will this impact current and future funding?
  - How much longer will projects be able to continue to pay salaries and other expenses? If projects are paused and there are no expenditures, the research foundation will not earn F&A, the primary source of revenue used to cover our operations.

- Proposal submissions appear to be on track; what will happen with awards? Will the government increase funding to the agencies as part of on-going stimulus support? Or will funding be diverted to help pay for other non-research federal stimulus and COVID-19 specific programs?

- When will we be able to get back to actual "normal?" What will normal look like in our local and national economies? Will there be funding for any new opportunities available?

- The models and assumptions we have used in the past to predict F&A and awards are not currently valid due to the number of unknowns.

- Self -support fees earned by KPBS and The Campanile Foundation are known as they are fixed agreements; however, the volume of "other campus programs" revenues including SDSU World Campus are unknown but will most certainly decline at least during the next fiscal year.
- For rental income for non-university tenants, how many tenants will be able to continue to pay rent in the short-term? Will we need to provide rent abatement and/or deferrals? We have already received requests for these considerations and are working with legal counsel to respond. The potential impact is not yet known.
- Given the current interest rate environment, we must reduce our assumptions on rates of return; we also must consider market adjustments – gain and loss. At this point, we do not know when the market will recover and what will happen to interest rates in the next year.
- What additional expenses will we incur due to COVID-19? We have already incurred additional costs to move our workforce to remote functioning, including purchasing more laptops and other remote technology and equipment. We were able to quickly move some paper-based processes to our MyRF functionality. While this has been very helpful to our projects, we did incur significant costs to hire outside consultants in order to respond immediately to the stay at home orders.

Given these uncertainties, we are, with some exceptions, budgeting close to normal environment but are adding some contingencies to plan for and acknowledge the unknowns in our new environment.

BUDGET SUMMARY

Source of Funds. Overall, Unrestricted Revenue prior to contingencies is expected to increase by $544,000 or 1.7%. from FY 2019-20 mid-year projections and $782,000 or 3.9% from FY 2018-19 original projections. Given our current pandemic environment and the uncertainties, revenues were projected conservatively.

Use of Funds. Basic Support ($26,944,000) which includes Administration & Operations and Facilities Expenses is projected to increase by $773,000 or 3.0% from the FY 2019-20 mid-year projection and $692,000 or 2.6%, from the FY 2019-20 original projection. Allocations for Enhanced Program Support are projected to be $6,543,000, an increase of $294,000 or 4.7% over the FY 2019-20 mid-year projection or 9.4% and $563,000 over the FY 2019-20 original projection. Given the possibility of additional disallowed costs due to the pandemic, we have set aside a $500,000 contingency for potential write-offs.

Reserves. Source of Funds before the addition of a contingency related to F&A and Rents totaled $33,014,000. Use of funds before the addition of a contingency related to potential disallowances totaled $32,987,000. Before the addition of the contingencies, source of funds exceeded use of funds by $27,000. With the addition of the contingencies, the potential use of reserves totals $3,350,100.

BUDGET DETAIL

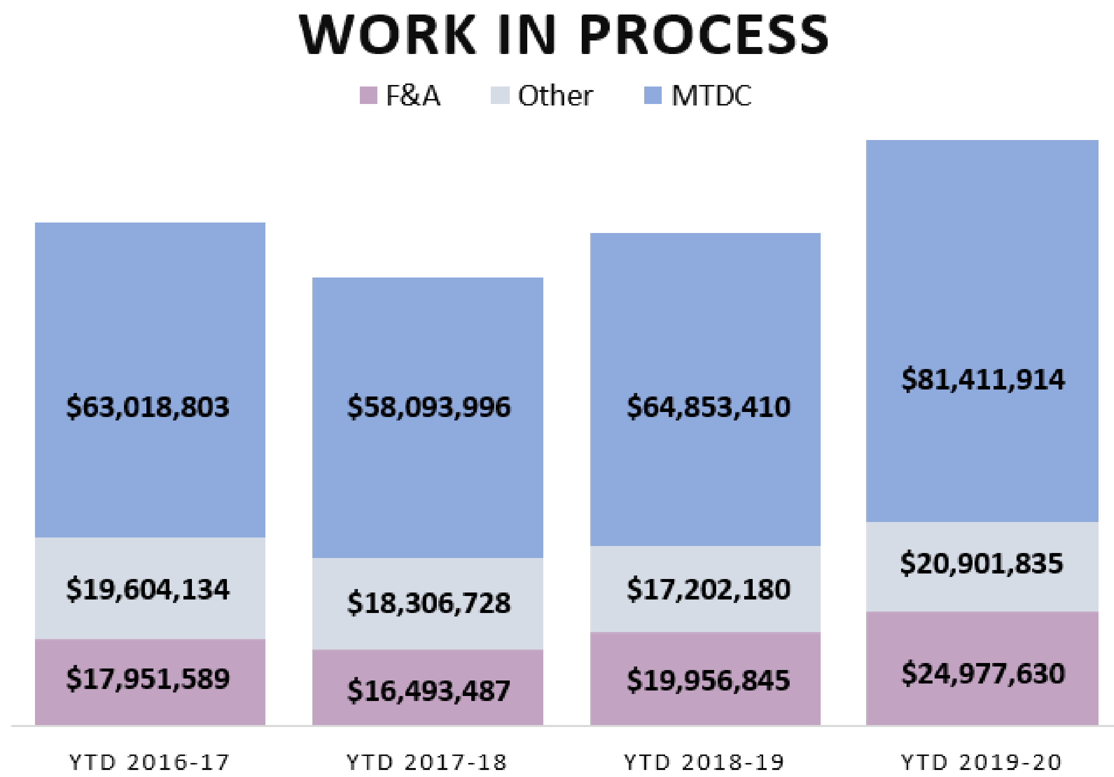
Source of Funds

Unrestricted Revenue - Unrestricted Revenue is projected to be $33,014,000 with a contingency of $2,850,100 for a net of $30,163,900, generated by SDSURF activities including the following revenue categories:

- **Grants and contracts ($21,902,000)** represents reimbursement for university and research foundation facilities and administrative (F&A) costs related to research. Given the uncertain nature of awards and grant spending, we have set aside a 10% contingency for F&A. The projection totals $21,902,000 less a contingency of $2,190,200 for a net projection of $19,711,800. Overall, F&A prior to contingencies is expected to increase by $602,000 or 2.8%. from FY 2019-20 mid-year projections and $802,000 or 3.8% from FY 2019-20 original projections.

  Projected F&A cost recovery represents approximately 68% 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 2019-20 is projected to be 26.0% of modified total direct costs or 20.9% of all direct expenditures.

  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. As noted previously, given the uncertain nature of the federal funding environment and the pandemic, these typical indicators are not as useful. However, we do have good news in that the amount in Work in Process (WIP) looks very positive. WIP, represents the amount of direct costs and F&A awarded but not yet spent. The following chart reflects WIP of March 31, 2017, 2018, 2019 and 2020:



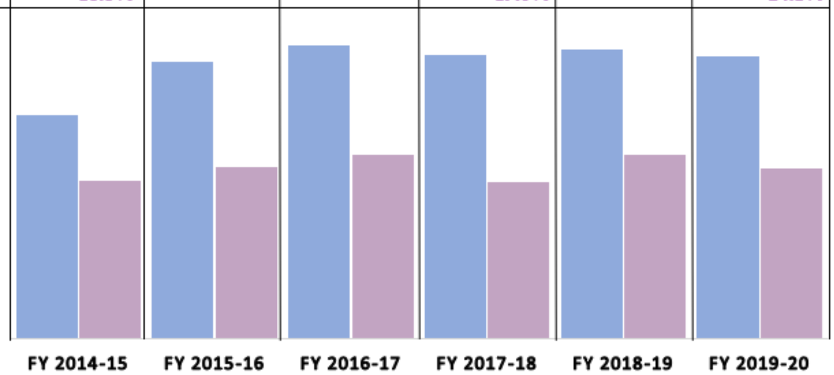
The following chart analyzes proposals and awards for the first nine months of the year comparing the current year to the prior four fiscal years. The number of proposals as of March 31, 2020 is higher than each of the last four years; however, the dollar amount of proposals compared to the last fiscal year is down by $3,930,036 or 2.7%. The dollar amount of awards is down compared to the same time during the prior year by $7,601,335 or 8.5%; however, the SDSU Georgia award of $8,686,000 was recorded in the YTD 2018-19 numbers.

PROPOSALS AND AWARDS

July 2019 through March 2020

$ Amount Proposed $ Amount Awards

	YTD 2014-15	YTD 2015-16	YTD 2016-17	YTD 2017-18	YTD 2018-19	YTD 2019-20
# of Proposals Submitted	727	804	826	825	780	847
$ Amount Proposed	$117,567,095	$145,393,231	$154,184,198	$148,728,575	$151,904,252	$147,974,216
#Awards Received	483	466	529	494	522	511
$ Amount of Awards	$83,222,548	$90,383,218	$96,667,036	$82,229,358	$96,942,543	$89,341,207
% F&A Costs Awarded/Direct Costs	18.8%	18.9%	18.5%	19.6%	20.7%	24.1%



- **Self-support programs** ($2,712,000) include the research foundation's administrative fee programs including KPBS, The Campanile Foundation and other campus programs such as SDSU World Campus. Self-support fees are expected to decrease by $112,000 or 4.0%. from FY 2019-20 mid-year projections and $184,000 or 6.4% from FY 2019-20 original projections. The projection anticipates a reduction in spending by several campus programs where fees are based upon volume.

- **Rents (**$6,599,000) from properties owned by SDSURF are projected to increase slightly based upon leases in place. Rents are expected to increase by $81,000 or 1.2% from FY 2019-20 mid-year projections and original projections. Given the potential issues with collections from non-university tenants, we have set aside a 10% contingency for rental income. This projection totals $6,599,000 less a contingency of $659,900 for a net projection of $5,939,100. (See Appendix 1 for background on facilities owned and managed by SDSURF.)

- **Technology Transfer Office** (TTO) ($103,000) revenue includes royalties and legal reimbursements and is consistent with the FY 2019-20 budget. 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.

- **Investment Income** ($1,698,000) reflects a reduction from mid-year FY 2019-20 projection due to the current lower interest rate environment. Investment Income is expected to decrease by $27,000 or 1.6% from FY 2019-20 mid-year projections and increase $83,000 or 6.4% from FY 2019-20 original projections.

Overall, Unrestricted Revenue prior to contingencies is expected to increase by $544,000 or 1.7% from FY 2019-20 mid-year projections and $782,000 or 3.9% from FY 2019-20 original projections.

Use of Funds

Basic Support. Basic Support ($26,944,000), which includes Administration & Operations and Facilities Expenses, is projected to increase by $773,000 or 3.0% from the FY 2019-20 mid-year projection and $692,000 or 2.6%, from the FY 2019-20 original projection.

- ***Administration and Operations ($15,788,000):*** 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. The increase of $669,000 or 4.4% over FY 2019-20 mid-year budget and $478,000 or 3.1% over the original FY 2019-20 projection is due to the following:
    - Merit increases of 3% were provided on January 1, 2020 in accordance with university increases; therefore, the FY 2019-20 budget only reflected a half year of this increase or 1.5%. The FY 2020-21 original budget reflects a full year of funding. **Based upon guidance from the university and uncertainties in the budget projections given COVID 19, we have not included any merit increases for FY 2020-21.**
    - In the mid-year budget for FY 2019-20, a new position was approved for a pre-award development specialist. This position was necessary to support the continued growth in proposal submissions as part of the university's strategic priorities. The FY 2020-21 budget reflects the full year of funding for this position.
    - In the FY 2019-20 budget, a risk manager was approved with a start date in October 2019. The FY 2020-21 budget reflects the full year of funding for this position. We are fortunate to have filled this critical position given the current COVID-19 pandemic; this addition has proved to be extremely helpful as we manage and coordinate all aspects of the pandemic response.
- Additionally, in the FY 2020-21 budget, we have several reductions in costs including a temporary reduction in travel and professional development of 25% due to these uncertain budget times.

Facilities expenses ($11,156,000). Facilities Expenses for FY 2020-21 ($11,156,000) reflects an increase of $104,000 or .9% over the FY 2019-20 mid-year projection and an increase of $214,000 or 2.0% compared to the FY 2019-20 original projection. Research foundation staff are involved in a variety of activities related to real property, including managing the space provided to sponsored projects. The current year budget projections reflect the following changes in overall facilities expenses:

- Merit increases of 3% were provided on January 1, 2020 in accordance with university increases; therefore, the FY 2019-20 budget only reflected a half year of this increase or 1.5%**.**
- Master lease payment for the leaseback of the City Heights building after the sale of the building in April 2020. Correspondingly, debt service was reduced as an offset after the sale of the building.
- Other miscellaneous expenses, primarily service contracts and university charges, have increased due to on-going increased costs such as a higher minimum wage for service contractor employees.
- Capital and Tenant improvements are costs to upgrade the condition of buildings and their mechanical systems and the surrounding land area. Tenant improvements are provided for new leases and would be offset by increases in rental income. The major capital improvements planned for FY 2020-21 include the following:
    - Asphalt replacement at Alvarado – 50,000 square feet
    - HVAC replacements at various buildings
    - Lighting upgrades/LED retrofits
    - Elevator control room replacements
    - ADA ramp at Women's Resource Center.

Allocations for Enhanced Program Support are projected to be $6,543,000. This projection is an increase of $294,000 or 4.7% over the FY 2019-20 mid-year projection or 9.4% or $563,000 compared to the FY 2019-20 original projection. Given the possibility that not all funding agencies will honor personnel compensation for "idle time" during the stay at home order, we have set aside $500,000 contingency for potential write-offs. If this allocation of $500,000 is not needed, it will not be funded.

- ***Allocations for Direct Support of Research ($3,501,000).*** 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. Allocations for Direct Support of research increased by $450,000 or 14.7% from the FY 2019-20 mid-year projection and increased by $535,000 or 18.0% from the FY 2019-20 original projection. The majority of the increase is due to the $500,000 contingency allocation to respond to the pandemic and corresponding potential disallowances/write-offs**.**

    - **Research Support Funds (RSF) ($2,815,000).** These funds are 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.

      Research Support Funds (RSF) for FY 2020-21 ($2,815,000) reflects a decrease of $50,000 or 1.7% over the FY 2019-20 mid-year projection and an increase of $35,000 or

1.3% compared to the FY 2019-20 original projection. The proposed FY 2020-21 budget funds 100% of the formula. As in previous years, 80% ($2,252,000) of the budget amount will be provided at the beginning of FY 2020-21. The remaining 20% ($563,000) will be distributed as part of the mid-year FY 2020-21 budget if the projected unrestricted revenue goals are achieved.

- **University Grants Program ($92,000).** Support for the University Grants Program for FY 2020-21 ($92,000) is consistent with the FY 2019-20 mid-year projection and the FY 2019-20 original projection. These funds typically support junior faculty to strengthen their scholarly activities especially in areas where outside funding sources do not provide sufficient support.

- **Biology PI Administrative Support ($94,000).** Biology PI Administrative Support FY 2020-21 ($94,000) is consistent with FY 2019-20 mid-year projection and the FY 2019-20 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.

- **Write-off Contingency ($500,000).** As a result of pandemic uncertainties, we anticipate that we may have additional disallowances including those for projects that were unable to move forward during the "stay at home" order but were charged salaries rather than terminating staff. If this allocation is not needed, it will not be funded.

- ***Allocations for Support of Research Infrastructure ($2,722,000).*** Support of Research Infrastructure for FY 2020-21 ($2,722,000) reflects a decrease of $141,000 or 4.9% over the FY 2019-20 mid-year projection and a decrease of $32,000 or 1.2% compared to the FY 2019-20 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 ($523,000).** Project Facilities and Equipment Support for FY 2020-21 ($523,000) reflects a decrease of $326,000 or 38.4% over mid-year projection and a decrease of $217,000 or 29.3% over the original FY2019-20 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 budget for FY 2019-20 was higher than typical due to extra costs required to complete the build-out of the HealthLink clinic and administrative space.

  - **Research Support - Library ($50,000).** The Library allocation for FY 2020-21 ($50,000) reflects no change from FY 2019-20 mid-year projection and the FY 2019-20 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 & TTO ($1,390,000).** Research Advancement & TTO reflects an allocation of $1,390,000, an increase of $107,000 or 8.3% over the FY 2019-20 mid-year projection and the FY 2019-20 original projection. The increase is due to savings in FY 2019-20 from open positions as well as the merit increase that was provided on January 1, 2020. Previously, the majority of this budget was part of the research foundation's Administration & Operations budget. With the hiring of a new Vice President for Research (VPR), the budget for this area will move to Research Allocations to clearly delineate resources that fall under the VPR's jurisdiction. The original and mid-year FY 2019-20 numbers were adjusted to show this reclassification as well as for comparability.

- **Research Compliance ($0).** Research Compliance and the corresponding Waiver of Certain University Allocations for FY 2020-21 ($0) show a 100% decrease from the FY 2019-20 mid-year projection as well as the FY 2019-20 original projection. Previously, funds were provided with a corresponding offset waiver to the university for a portion of infrastructure costs needed to support the required administrative and compliance activities of a research institution including support for the office of the vice president for research, the division of research affairs and environmental health and safety. At the request of the university, this line item and offset was eliminated and moved to the university budget, and a new allocation is requested under Research Endowment Distribution.

- **Research Endowment Distribution ($600,000).** As noted above, and at the request of the university, this funding is a new line item taking the place of Research Compliance and offsetting waiver. The funds will support research by replacing the distribution of the research endowment held at The Campanile Foundation.

- **University Research Space ($70,000).** University Research Space for FY 2020-21 ($70,000) reflects no change compared to the FY 2019-20 mid-year projection as well as the FY 2019-20 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.

- ***Investments in Enhanced Service Initiatives ($320,000).*** Investments in Enhanced Service Initiatives for FY 2020-21 ($320,000) reflects a decrease of $15,000 or 4.5% from the FY 2019-20 mid-year projection and an increase of $60,000 from the original budget. 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 2020-21 ($200,000) reflects no change from the FY 2019-20 mid-year projection or the FY 2019-20 original projection. Funding for FY 2019-20 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 2020-21 planned investments include:

    - Continued development in MyRF to streamline processes for faculty and staff and expanded proposal and grant reporting, including executive dashboards and pushed reports
    - Expanded system integrations with SDSUid Single Sign On (SSO) for MyRF, Workforce

        - US Bank e-Payables to streamline invoicing
        - Softdocs document retention – award and finance files fully implemented
        - Explore sub-contract and sub-award functionality in InfoEd
        - Workforce Upgrade to leverage new functionality and enhanced user interface for supervisors and employees completing time reports.

    - **Washington D.C. Representation ($135,000).** 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. While the team continues to provide timely information about the federal budget and is now helping to identify COVID-19 opportunities we will continue to analyze the efficacy of this on-going investment.

Reserves - Net funds from reserves, with the contingencies included totaled $3,350,100. Source of Funds before the addition of a contingency related to F&A and Rents totaled $33,014,000. Use of funds before the addition of a contingency related to potential disallowances totaled $32,987,000. Before the addition of the contingencies, source of funds exceeded use of funds by $27,000. With the addition of the contingencies, the potential use of reserves totals $3,350,100.

GENERAL FUND BUDGET
APPENDIX A
FACILITIES

BACKGROUND ON FACILITEIS OWNED AND MANAGED BY SDSURF

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.
- *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. In April 2020, SDSURF sold this property; however, we agreed to master lease back the entire property for five years with a five-year extension.
- *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 laboratory 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.

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 (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. As noted previously, projecting source of funds, during a pandemic is exceptionally challenging; therefore, we have set aside two contingencies one for potential reductions in source of funds $2,850,100 as well potential additional disallowances of $500,000.

The research foundation's reserves are categorized as discretionary (funds designated by the board of directors for specific purposes) and non-discretionary (unable to be used for general operations). The components of each reserve category and the established goals are presented below for discretionary reserves.

Discretionary Funds ($10,370,000)

	Projected Balance 6/30/2020	Goal for Reserve as of FY 2019-20	Additional Funds needed to meet Reserve goal
Discretionary			
Operating Cash Reserves			
Income Equalization	550,000	1,055,000	505,000
Working Capital	3,387,000	5,337,000	1,950,000
General Fund Endowment	3,077,000	3,077,000	-
Total Operating Cash Reserves	7,014,000	9,469,000	2,455,000
Designated Reserves			
Operating Contingency	1,000,000	1,000,000	-
Facilities	960,000	1,500,000	540,000
Utilities	400,000	500,000	100,000
Insurance	996,000	996,000	-
Total Designated Reserves	3,356,000	3,996,000	640,000
Total Discretionary	10,370,000	13,465,000	3,095,000
Real Estate Deficit	(6,380,000)		6,380,000
	3,990,000		9,475,000

Income Equalization ($550,000)

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 ($3,387,000)

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.

Quasi-Endowment/General Fund ($3,077,000)

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

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 ($400,000)

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

Insurance ($996,000)

The insurance reserve was established in FY 2012-13 in anticipation of a change in the required deductibles on research foundation insurance program. 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 and rebates.

Unfunded Obligations (Real Estate Deficit)

SDSU Research Foundation has a total of approximately $6.4 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.

Non-discretionary Reserves

	Projected Balance 6/30/2020	Goal for Reserve as of FY 2019-20
Non-discretionary		
Debt Service	956,000	956,000
Research Endowments		
Research Endowment	3,022,000	3,022,000
Research Endowment Income	875,000	875,000
Total Research Endowments	3,897,000	3,897,000
Employee-Related		
Retiree Medical VEBA Trust	12,470,000	12,470,000
Employee Fringe Benefits	1,752,000	1,752,000
Workers' Compensation Insurance	2,887,000	2,887,000
Unemployment Insurance	2,470,000	2,470,000
Total Employee-Related	19,579,000	19,579,000
Total Non-discretionary	24,432,000	24,432,000

Debt Service ($956,000)

The debt service reserve was established to assist with future debt service payments if needed. Management does not recommend adding to this reserve unless necessary or required by the lender if new debt is issued.

Quasi-Endowment/Research Endowment ($3,022,000)

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 ($875,000)

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.

Retiree Medical VEBA Trust ($12,470,000)

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 ensure 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 ($1,752,000)

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 ($2,887,000)

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 ($2,470,000)

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 benefit rate charged is monitored annually so that the interest earned on reserves plus premiums charged to employees' fringe benefit rate is offset by the claims and expenses paid during the same time period. The goal was to reduce catastrophic insurance coverage premiums by funding a certain level of unemployment claims internally.