

GENERAL FUND BUDGET

FY 2021-22



SAN DIEGO STATE UNIVERSITY
RESEARCH FOUNDATION

This proposed FY 2021-22 budget was approved by the SDSU Research Foundation Board of Directors on May 7, 2021 without any changes.

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MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

Last year, when we prepared the 2020-21 budget, I never imagined that we would be presenting another annual budget remotely. Continued thanks to our board members and university leaders who have supported and partnered with the research foundation during this ongoing, unprecedented time.

Our staff have weathered the past year of teleworking extremely well and service levels have remained high. Based on state, county and SDSU guidance, we are examining what a return to physical space in the fall of 2021 would look like. Our priority remains the health and safety of our employees. SDSURF is positioned to take a leadership role in piloting how remote and hybrid work can be incorporated into our post-pandemic work structure. We want to ensure the innovations and efficiencies developed while working remotely are preserved and sustained where they enhance our work and service to researchers and take advantage of the lessons learned this past year to ensure we can attract and retain a high-quality workforce.

I am pleased to present the fiscal year 2021-22 proposed budget of \$33,103,000 on behalf of our management team. This budget reflects our continued commitment to the following priorities:

- 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 some research activity was paused last year, I am pleased to report as of April 19th, faculty have been approved to return to their offices and research labs provided they adhere to SDSU safety guidelines. We continue to work closely with our commercial tenants who are recovering from the financial impacts to their businesses, and to monitor our investment portfolio. This budget assumes the following:

- A 3% increase in F&A earnings.
- A modest recovery in our rental income as commercial tenants reopen.
- A decrease in investment income due to the near zero interest rates on short term investments.
- A slight increase in self-support fees based on pre-negotiated agreements with KPBS and The Campanile Foundation.
- No compensation increases budgeted for the coming year.
- Use of \$362,000 from reserves if needed to fund revenue contingencies.

The following positive indicators are reason for optimism for the coming year:

- Proposals submitted are running just slightly below last year's record number of proposals.
- Awards are tracking on a similar level as last year.
- The increase in work-in-process indicates we can expect to see more spending in the coming year.
- University investments in research are targeted to increase proposal submissions.
- Our new Washington representation is actively working with SDSU faculty to identify and submit proposals to potential funding programs.
- Faculty have pivoted to focus their expertise on addressing the pandemic; they have submitted 81 COVID-19 related proposals and received 23 awards valued at \$9 million.
- The new administration is investing in science.
- Budgets for federal agencies like NIH and NSF are expected to receive substantial budget increases, increasing opportunities for SDSU faculty to compete for resources.

There is still much uncertainty, and we know FY 2021-22 will continue to be a challenging year, but we are positioned to provide the staff and systems necessary to support SDSU research. We hope to start the academic year with everyone healthy, researchers back in their labs and SDSURF staff positioned to provide efficient support whether remotely or in person.

Finally, a note of thanks to Interim Vice President for Research and Innovation Hala Madanat for her leadership and guidance during this past year. Her creative investments in new and re-tooled programs are providing more time and resources for individual and team researchers to successfully compete for grants and to conduct their work. Dr. Madanat's support of faculty, students, centers, and institutes will lead to more proposals and awards and position SDSU to move forward on the path to R1 status.

Sincerely,

Michèle G. Goetz
Associate Vice President and CEO

Proposed General Fund Budget FY 2021-22

	FY 2020-21 Original	FY 2020-21 Mid-Year	FY 2021-22 Proposed
<u>SOURCE OF FUNDS</u>			
<i>Unrestricted Revenue:</i>			
Grants & Contracts F&A	21,902,000	22,558,000	23,235,000
F&A Contingency	(2,190,200)	-	-
Self-Support Programs Fees	2,712,000	2,712,000	2,732,000
Facilities Rents	6,599,000	5,955,000	6,092,000
Rent Contingency	(659,900)	-	-
TTO Revenue	103,000	99,000	99,000
Investments	1,698,000	1,027,000	945,000
<i>Total Unrestricted Revenue</i>	30,163,900	32,351,000	33,103,000
<u>USE OF FUNDS</u>			
<i>Basic Support</i>			
Administration & Operations	15,788,000	15,618,000	16,179,000
Facilities Expenses	11,156,000	10,571,000	11,131,000
<i>Total Basic Support</i>	26,944,000	26,189,000	27,310,000
Net Remaining after Providing Basic Support	3,219,900	6,162,000	5,793,000
<i>Allocations for Enhanced Program Support:</i>			
Direct Support of Research:			
Research Support Funds	2,815,000	2,911,000	2,975,000
Allocation for Research Initiatives	-	-	158,000
University Grants Program	92,000	92,000	92,000
Biology PI Administrative Support	94,000	94,000	-
Write-off Contingency	500,000	250,000	-
	3,501,000	3,347,000	3,225,000
Support of Research Infrastructure:			
Project Facilities and Equipment Support	523,000	572,000	637,000
F&A - Library Study and Rate Negotiation	89,000	134,000	-
Research Support - Library	50,000	50,000	50,000
Research Advancement & TTO	1,390,000	1,281,000	1,311,000
Research Endowment Distribution	600,000	600,000	600,000
University Research Space	70,000	70,000	70,000
	2,722,000	2,707,000	2,668,000
Investment in Enhanced Service Initiatives:			
Systems Infrastructure	200,000	200,000	100,000
Washington D. C. Representation	120,000	120,000	162,000
	320,000	320,000	262,000
<i>Total Allocations for Enhanced Program Support</i>	6,543,000	6,374,000	6,155,000
<i>Total Basic Support and Allocations</i>	33,487,000	32,563,000	33,465,000
TOTAL SOURCE OF FUNDS	30,163,900	32,351,000	33,103,000
TOTAL USE OF FUNDS	33,487,000	32,563,000	33,465,000
<i>Net Funds to (from) Reserves</i>	(3,323,100)	(212,000)	(362,000)

GENERAL FUND BUDGET OVERVIEW

About SDSU Research Foundation

Incorporated in 1943, SDSU Research Foundation (SDSURF) is an auxiliary organization of San Diego State University. Authorized by California's Education Code and governed by a board of directors composed of SDSU leaders/faculty the student body president and community members, the organization exists to serve SDSU. SDSURF's management team works closely with SDSU's vice presidents for research and innovation 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 was more uncertain and challenging than in previous years. For FY 2021-22 with the aggressive roll-out of vaccinations, the return to a more "normal" environment is in sight; however, many uncertainties regarding the timing and longer-term impacts of the pandemic are still uncertain. Given these uncertainties, we continue to budget conservatively.

In spite of the challenges of this unprecedented pandemic year, SDSU Research Foundation (SDSURF) continues on stable financial footing while continuing to provide SDSU and its researchers a high level of support. Even with the stay-at-home order and the majority of faculty working from home, research activities have continued at a brisk pace. We are presenting an increase in source of funds compared to FY 2020-21 mid-year budget of \$752,000 and from the original budget of \$2,939,100. Changes in the proposed budget for FY 2021-22 compared to the original and mid-year budgets for FY 2020-21 are summarized here:

- Increase in F&A compared to mid-year budget of \$677,000 or 3.0% and compared to original of \$3,523,200 or 17.9%. The large increase compared to the original budget is due to removal of the contingency which was set aside in the original budget for the unknown impacts of the COVID pandemic.
- Increase in Self Support Programs Fees compared to mid-year budget and original of \$20,000 or 0.7%.
- Increase in Facilities rents compared to mid-year budget of \$137,000 or 2.3% and compared to original of \$152,900 or 2.6%.
- No change in TTO Revenue compared to the mid-year budget and a decrease of \$4,000 or 3.9% compared to original.
- Decrease in Investment Income of \$82,000 or 8.0% compared to mid-year budget and \$753,000 or 44.3% compared to original.

We are presenting an increase in Use of Funds compared to FY 2020-21 mid-year of \$896,000 or 2.8% and a decrease from original of \$28,000 or 0.1% in the following:

- Basic support
 - Increase in Administration & Operations of \$561,000 or 3.6% from mid-year budget and \$391,000 or 2.5% from original.
 - Increase in Facilities expenses of \$560,000 or 5.3% from mid-year budget and a decrease from original of \$25,000 or 0.2%.
- Allocations for Enhanced Program Support
 - Increase in Research Support Funds of \$64,000 or 2.2% from mid-year budget and \$160,000 or 5.7% from original.
 - Increase in Allocation for Research Initiatives of \$158,000 or 100.0% from mid-year and original since this is a new category.
 - Elimination/decrease of Biology PI Administration Support of \$94,000 or 100.0% from mid-year and original.
 - Elimination/decrease of Write-off Contingency of \$250,000 or 100.0% from mid-year and \$500,000 or 100.0% from original.
 - Increase in Project Support of \$65,000 or 11.4% from mid-year budget and \$114,000 or 21.8% from original.

- Decrease in F&A – Library Study and Rate Negotiation of \$134,000 or 100.0% from mid-year budget and \$89,000 or 100.0% from original.
- Increase in Research Advancement & TTO of \$30,000 or 2.3% from mid-year budget and a decrease of \$79,000 or 5.7% from original.
- Decrease in Systems Infrastructure of \$100,000 or 50.0% from mid-year budget and original.
- Increase in Washington D.C. Representation of \$42,000 or 35.0% from mid-year budget and original.

In addition to the changes at mid-year, we are tracking the following items for future impacts that may be slower to develop and/or impact FY 2021-22 and beyond:

- For rental income for non-university tenants, some tenants have been unable to continue to pay full rent during the pandemic. When will commercial tenants recover and be able to begin paying full rent and will they be able to catch up on back rent?
- Unemployment claims – we currently have a challenge with unemployment insurance (UEI) due to excess unemployment claims. We are self-insured for claims up to \$2.1 million annually. The Employment Development Department (EDD) is so overwhelmed with claims that they are processing all claims without appropriately vetting. We have had some down-sizing at our projects causing these excess claims. We may have an excess liability to pay; however, at this point, EDD is not able to provide us with accurate estimates. We are tracking this issue closely.
- Insurance – we were previously notified by CSURMA/AORMA that our insurance premiums would be increased next fiscal year by approximately 60.0%. In order to reduce the increase, CSURMA/AORMA used reserves this year to fund part of the increase; thus, the increase was only 20.0%. However, they have notified all auxiliaries that the rest of the increase will occur in FY 2022-23 and FY 2023-24.
- Minimum wage will increase to \$15/hour effective January 1, 2022 impacting not only those positions currently at minimum wage, but this could also result in reclassification of a greater number of positions from exempt to non-exempt and therefore subject to overtime and time keeping regulations not currently applied to these positions.

The university's strategic planning working groups are reviewing research infrastructure needs to support the overall goal of becoming an R1 research institution. Areas under review that will require future funding include:

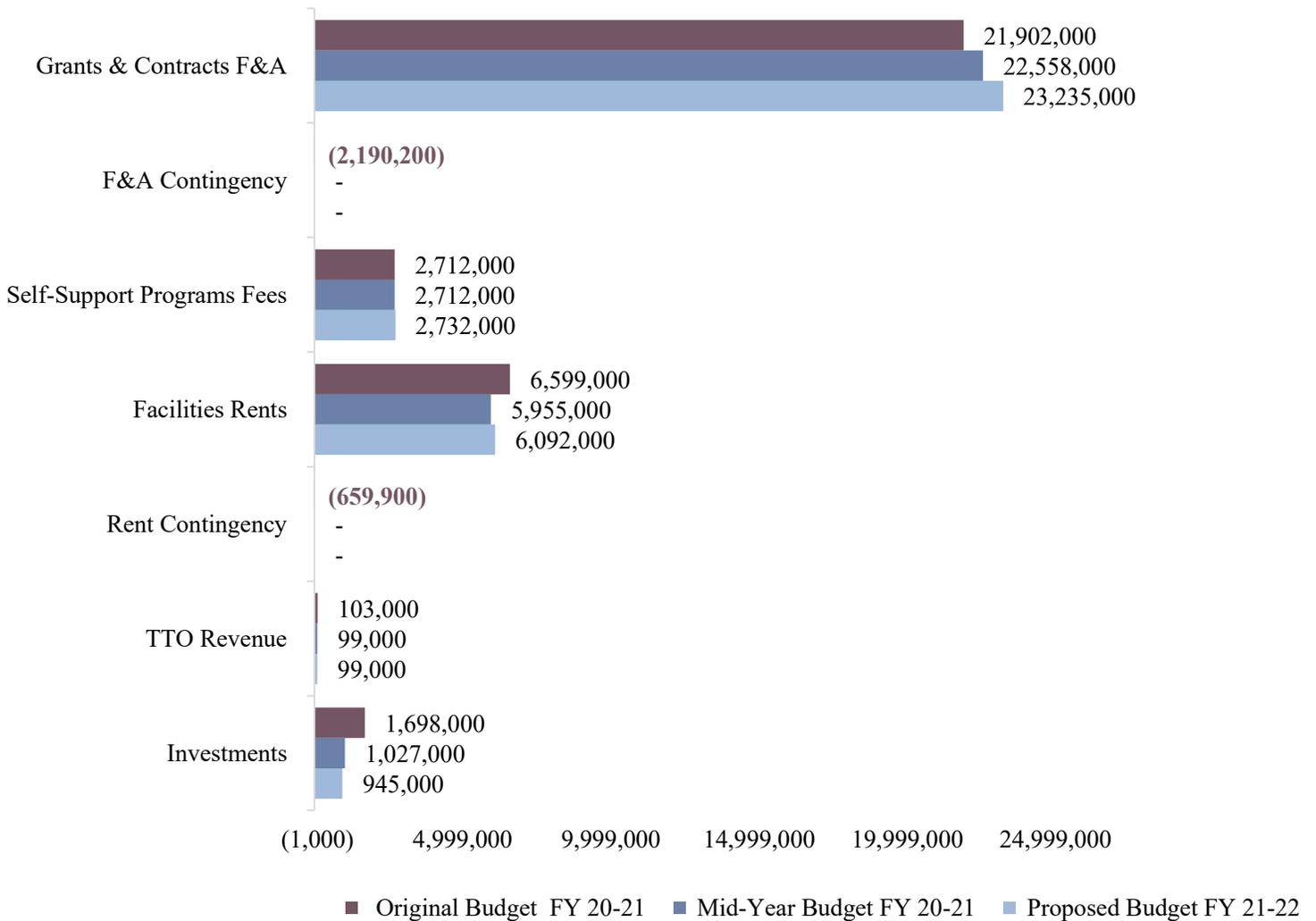
- Building support – maintenance, repair and operations funds are needed to support key research facilities at certain buildings including the Coastal and Marine Institute Laboratory, BioScience Center, Greenhouse, and Animal Vivarium.
- Library – additional resources are needed for research publications and other services to support researchers.
- Information Systems – support is needed for research computing, especially in the area of IT security.
- Recharge centers – the university is considering additional support needed to develop, support and manage recharge and service centers essential to researchers.
- Staffing – evolving research programs may require hiring of staff with specialized expertise such as international project management, classified research and recharge rate structure development.
- Mission Valley – the development of partnerships within the Innovation District will hopefully lead to increased research volume overall which will require continued investment in the staffing and systems needed to support growth in the most effective and efficient means possible.

Investments by both the university and the research foundation will be needed in order to accomplish the university's strategic goals. Despite the challenges created by the pandemic, faculty continue to actively pursue funding for their research programs including research on the impacts of COVID-19. Proposal submissions and award numbers appear to be keeping pace in FY 2020-21 with FY 2019-20 numbers. In addition, the change of administration at the federal level is likely to be supportive of science and research. It appears that federal agencies may receive substantial additional funding for research, and our university is positioned well to compete for our share of this funding.

BUDGET SUMMARY

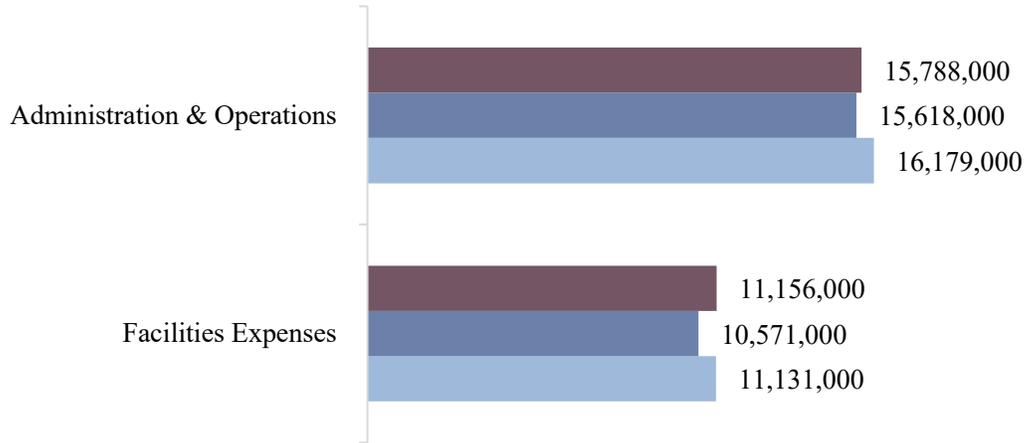
Source of Funds. Overall, Unrestricted Revenue is expected to increase by \$752,000 or 2.3% from FY 2020-21 mid-year projections and \$2,939,100 or 9.7% from FY 2020-21 original budget. Given our current pandemic environment and associated uncertainties, revenues were projected conservatively. However, revenue contingencies originally projected for FY 2020-21 have been removed.

Unrestricted Revenue



Use of Funds. Basic Support (\$27,310,000) which includes Administration & Operations and Facilities Expenses is projected to increase by \$1,121,000 or 4.3% from the FY 2020-21 mid-year projection and \$366,000 or 1.4%, from the FY 2020-21 original budget. Due to the stay-at-home order, we were able to reduce the Basic Support budget significantly at mid-year FY 2020-21 but returned to a normal budget level for FY 2021-22.

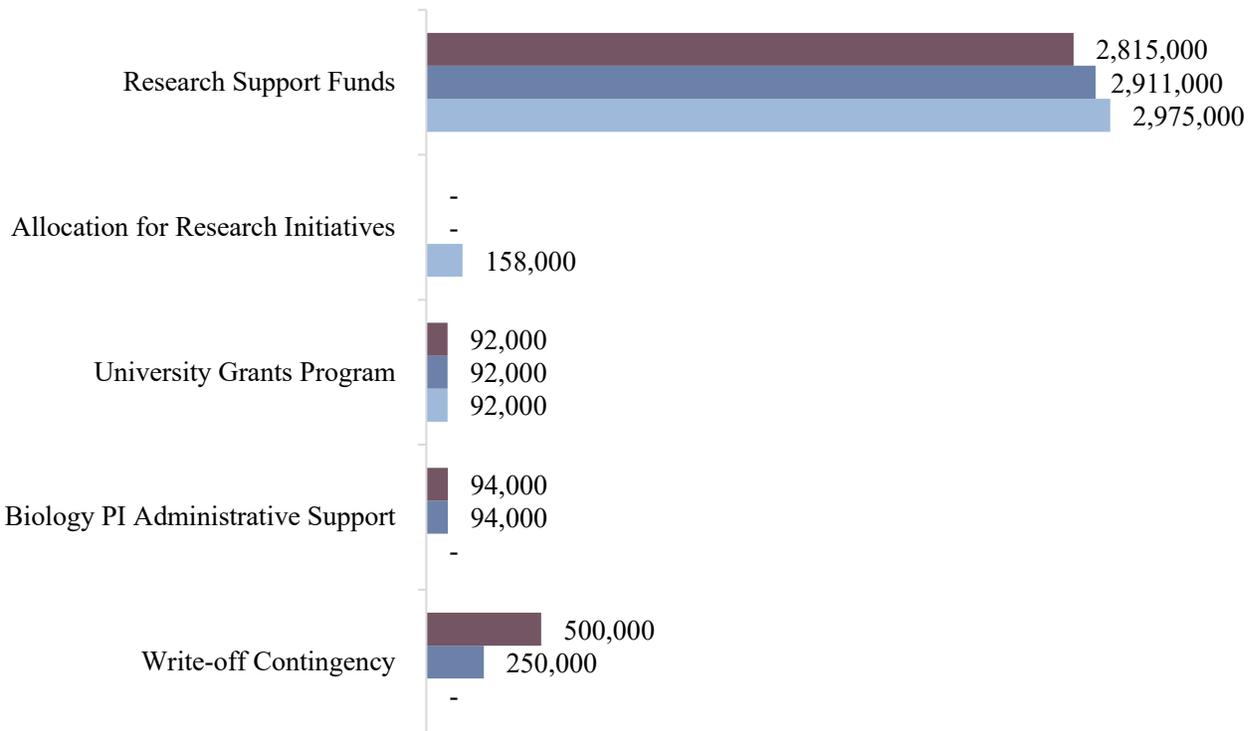
Basic Support



■ Original Budget FY 20-21 ■ Mid-Year Budget FY 20-21 ■ Proposed Budget FY 21-22

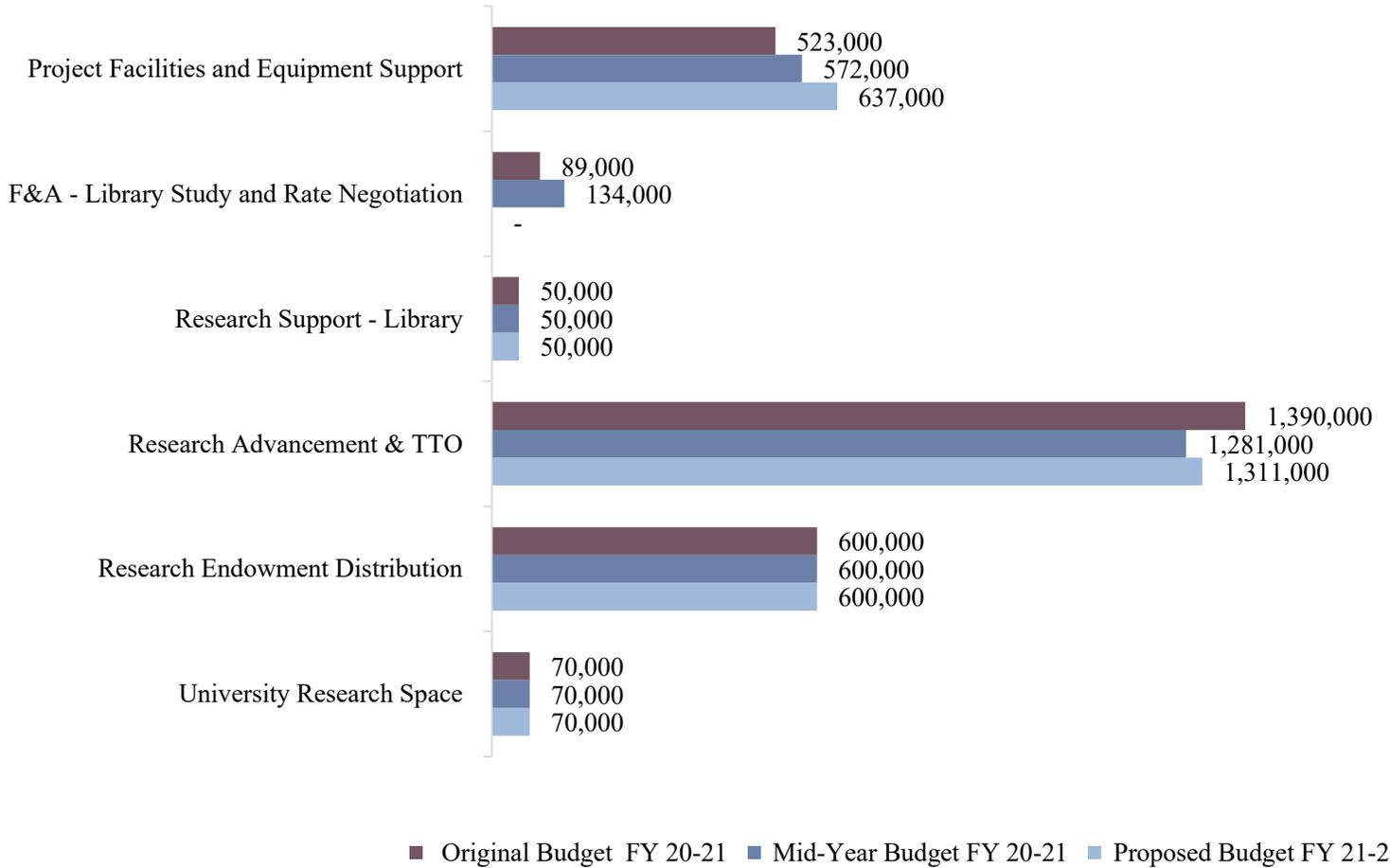
Allocations for Enhanced Program Support, which includes categories Direct Support of Research, Support of Research Infrastructure, and Investment in Enhanced Service Initiatives, are projected to be \$6,155,000, a decrease of \$219,000 or 3.4% over the FY 2020-21 mid-year budget and \$388,000 or 5.9% over the FY 2020-21 original budget.

Direct Support of Research

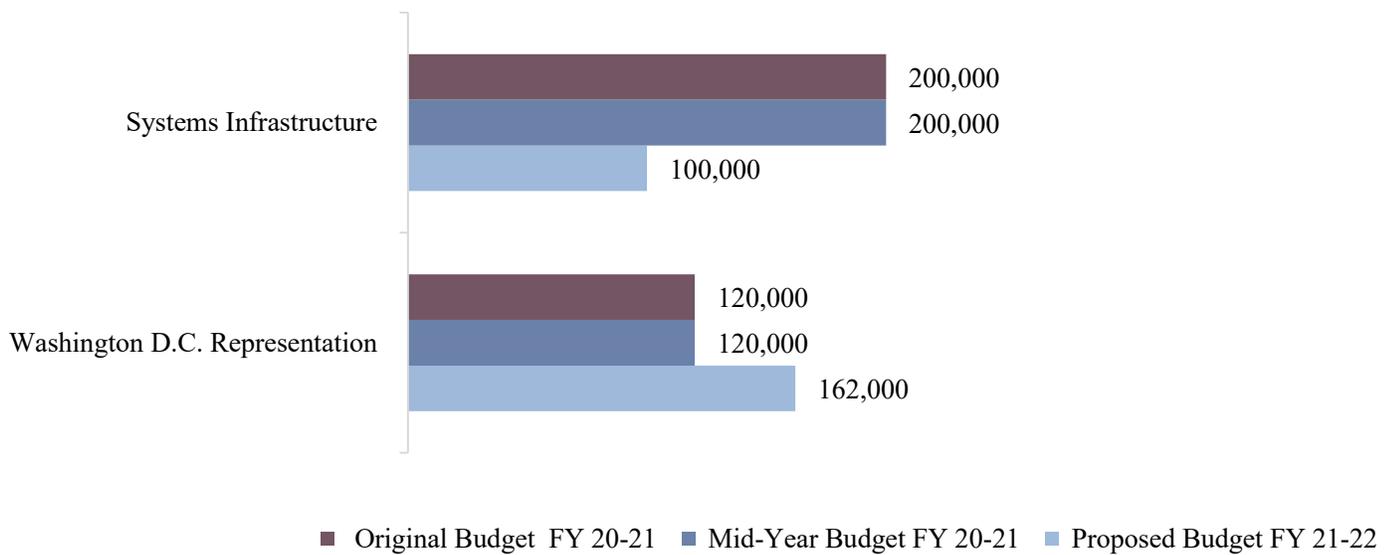


■ Original Budget FY 20-21 ■ Mid-Year Budget FY 20-21 ■ Proposed Budget FY 21-22

Support of Research Infrastructure



Investment in Enhanced Service Initiatives



Reserves. Source of Funds is projected to be \$33,103,000, while Use of Funds is projected to be \$33,465,000, leaving \$362,000 needed from Reserves in order to balance the budget.

BUDGET DETAIL

Source of Funds

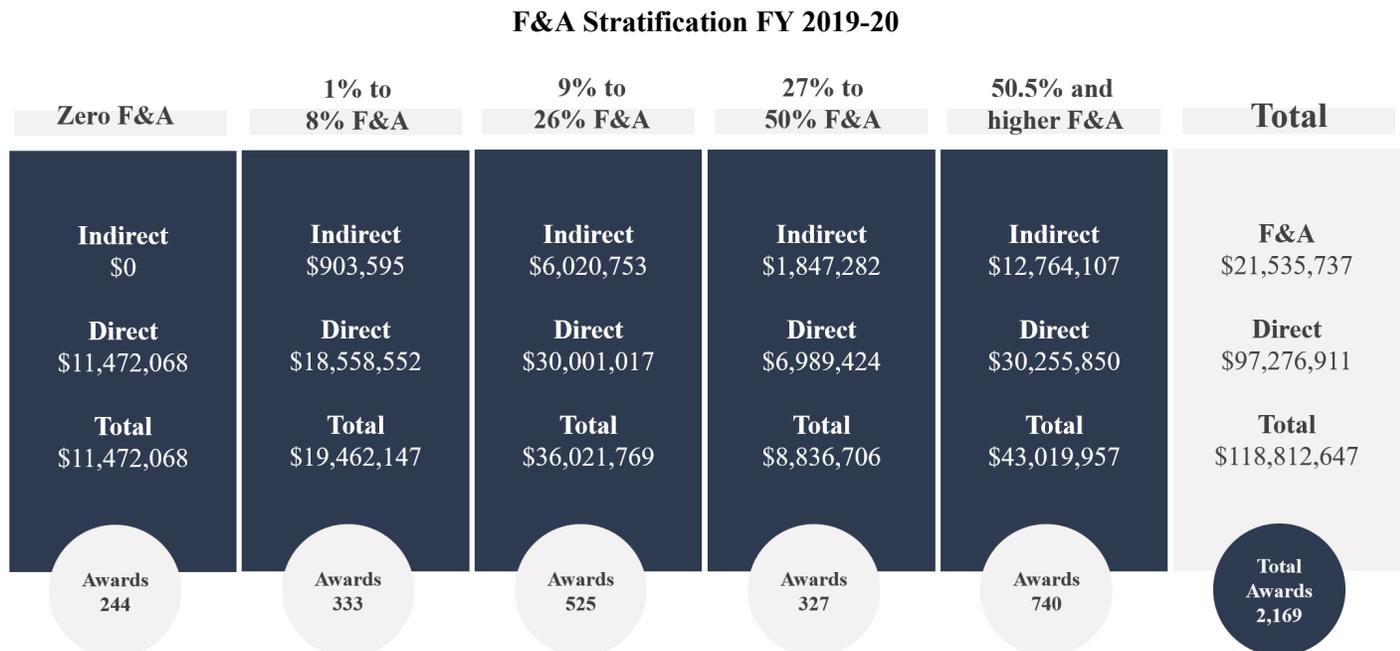
Unrestricted Revenue

Unrestricted Revenue is projected to be \$33,103,000, generated by SDSURF activities including the following revenue categories:

- Grants and Contracts (\$23,235,000)** represents reimbursement for university and research foundation facilities and administrative (F&A) costs related to research. Overall, F&A is expected to increase by \$677,000 or 3.0% from FY 2020-21 mid-year budget and \$3,523,200 or 17.9% from FY 2020-21 original budget, as the original projections included a 10.0% contingency for unknowns during the pandemic.

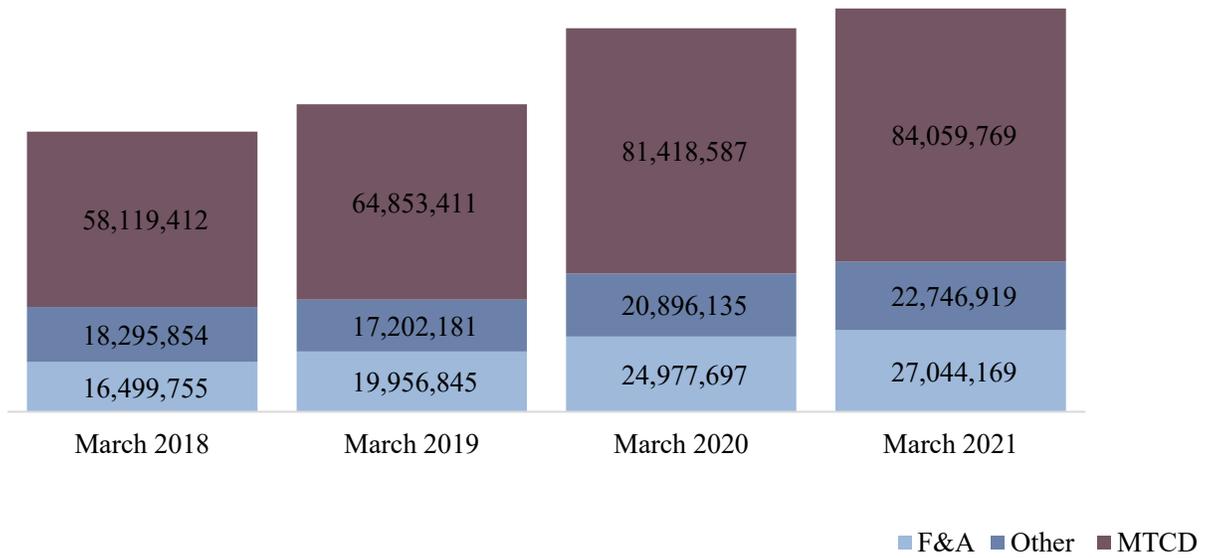
Projected F&A cost recovery represents approximately 70.2% of total unrestricted monies available. Although the federal negotiated F&A rate for research is 50.5% of modified total direct costs, many awards receive a lower rate, and certain categories of expense may be excluded when calculating the rate in accordance with federal rules. The actual recovery rate for FY 2020-21 is projected to be approximately 22.0% of all direct grant expenditures.

SDSURF accepts all awards on behalf of the university that have been approved by the SDSU administration. The following chart reflects actual grant and contract F&A for FY 2019-20 and the stratification based upon F&A received, and indicates that more than 50.0% of F&A is collected at a rate at or below 26.0%



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, 2018, 2019, 2020 and 2021:

Work in Process



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, 2021 is steady with the last four years; however, the dollar amount of proposals compared to the last fiscal year is up by \$8,690,007 or 5.9%. The dollar amount of awards is also up compared to the same time during the prior year by \$1,744,897 or 2.0%.

Proposals and Awards

July through March

First 9 months of the year	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Proposals Submitted (#)	826	825	780	847	832
Total Amount Proposed (\$)	154,184,198	148,728,575	151,904,252	147,873,148	156,563,155
Number of Awards Received (#)	529	494	522	551	483
Total Amount Awarded (\$)	96,667,036	82,229,358	96,942,573	89,370,182	91,115,169
% F&A Costs Awarded/Direct Costs	16.40%	17.16%	15.01%	17.96%	17.97%

July through June

Full Fiscal Year	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
Proposals Submitted (#)	1,196	1,219	1,199	1,251
Total Amount Proposed (\$)	229,008,475	215,660,150	246,319,758	234,046,801
Number of Awards Received (#)	783	756	786	758
Total Amount Awarded (\$)	134,264,146	135,033,450	148,494,798	144,427,675
% F&A Costs Awarded/Direct Costs	17.66%	20.72%	20.35%	22.86%

Total Amount Proposed (\$)
 Total Amount Awarded (\$)

- Self-support Programs (\$2,732,000)** include the research foundation's administrative fee for services to self-support units including KPBS, The Campanile Foundation and SDSU Global Campus. Self-support fees are expected to increase by \$20,000 or 0.7% from FY 2020-21 mid-year and original projections, based on increases on the set agreements with KPBS and The Campanile Foundation. All other program activity has been projected as flat from mid-year FY 2020-21.

- **Rents (\$6,092,000)** from properties owned by SDSURF are projected based upon current leases in place. Rents are expected to increase by \$137,000 or 2.3% from the FY 2020-21 mid-year budget and \$152,900 or 2.6% from FY 2020-21 original budget. While the 10.0% rent contingency budgeted for the FY 2020-21 original budget was needed this fiscal year, we are hopeful rental income will start to normalize in FY 2021-22. However, to be conservative, we have not projected income for any space currently vacant.
- **Technology Transfer Office (TTO) (\$99,000)** revenue includes royalties and legal reimbursements and is consistent with FY 2020-21 mid-year budget and a decrease of \$4,000 or 3.9% from the FY 2020-21 original 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 (\$945,000)** reflects a reduction from mid-year FY 2020-21 budget due to the current drastically low interest rate environment and economic challenges in the United States due to the COVID-19 pandemic. Investment Income is expected to decrease by \$82,000 or 8.0% from FY 2020-21 mid-year budget and \$753,000 or 44.3% from FY 2020-21 original budget. In the current interest rate environment (almost zero), it is not possible to earn significantly higher returns on short-term cash and investments without taking increased risk.

Overall, Unrestricted Revenue is expected to increase by \$752,000 or 2.3% from FY 2020-21 mid-year budget and \$2,939,100 or 9.7% from FY 2020-21 original budget.

Use of Funds

Basic Support (\$27,310,000), which includes Administration & Operations and Facilities Expenses, is projected to increase by \$1,121,000 or 4.3% from the FY 2020-21 mid-year budget and \$366,000 or 1.4%, from the FY 2020-21 original budget.

- **Administration and Operations (\$16,179,000)** covers 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 \$561,000 or 3.6% over FY 2020-21 mid-year budget and \$391,000 or 2.5% over the original FY 2020-21 projection is due to the following:

	Original	Mid-Year	Proposed	Proposed compared to		Proposed compared to	
				FY 2020-21	FY 2020-21	FY 2020-21	FY 2020-21
	FY 2020-21	FY 2020-21	FY 2021-22	\$ Increase (Decrease)	% Increase (Decrease)	\$ Increase (Decrease)	% Increase (Decrease)
Salaries and Benefits	13,858,000	13,816,000	14,154,000	338,000	2.4%	296,000	2.1%
Operating Costs:							
Legal	143,000	93,000	143,000	50,000		-	
Insurance	100,000	105,000	143,000	38,000		43,000	
Equipment & Supplies	53,000	67,000	60,000	(7,000)		7,000	
Contracted Services	890,000	944,000	986,000	42,000		96,000	
Audit	311,000	302,000	307,000	5,000		(4,000)	
Other (Admin & Misc)	433,000	291,000	386,000	95,000		(47,000)	
	1,930,000	1,802,000	2,025,000	223,000		95,000	
	15,788,000	15,618,000	16,179,000	561,000	3.6%	391,000	2.5%

- **Salaries and Benefits** increased due to minimum wage increases that were applied on January 1, 2021 in accordance with state laws; the FY 2020-21 budget only reflected a half year of this increase. The FY 2021-22 original budget reflects a full year of funding, as well as an additional minimum wage increase on January 1, 2022. In addition to the hourly rate increase, exempt minimum wage also increased. Based upon guidance from the university and uncertainties in the budget projections given COVID-19, we

have not included any merit increases for FY 2021-22.

- **Legal** increased by \$50,000 compared to the mid-year budget and is equal to the original budget. Legal fees are estimated based upon any legal issues in process and anticipated costs for the next year.
- **Insurance** will be increasing significantly for FY 2021-22. We were previously notified by CSURMA/AORMA that our insurance premiums would be increased next fiscal year by approximately 60.0%. In order to reduce the increase, CSURMA/AORMA used reserves this year to fund part of the increase; thus, the increase was only 20.0%. However, they have notified all auxiliaries that the rest of the increase will occur in FY 2022-23 and FY 2023-24.
- **Equipment & Supplies** decreased from the mid-year budget by \$7,000 and increased from the original budget by \$7,000 due to the projected need for supplies over the next year.
- **Contracted Services** increased from the mid-year budget by \$42,000 and from the original budget by \$96,000. The majority of the increase is due to regular contract increases for items such as software agreements; additionally, the increase in minimum wage has impacted vendors as well, causing their pricing to increase.
- **Audit fees** increased from the mid-year budget by \$5,000 in line with our agreed upon engagement with our external auditors Grant Thornton. In the original budget, we had additional audit funds budgeted for an implementation of a new GASB accounting pronouncement. However, due to the pandemic, the GASB organization delayed the implementation date by several years.
- **Other** increased \$95,000 compared to mid-year budget and decreased by \$47,000 from the original budget. In FY 2020-21, the CSU system implemented a travel ban, ultimately eliminating the FY 2020-21 travel budget and greatly reducing the professional development budget. The Chancellor's Office recently announced a removal of the travel restrictions effective June 1; therefore, these budgets have been increased closer to normal levels.
- **Facilities expenses (\$11,131,000)** reflects an increase of \$560,000 or 5.3% over the FY 2020-21 mid-year projection and a decrease of \$25,000 or 0.2% compared to the FY 2020-21 original projection. Research foundation staff are involved in a variety of activities related to real property, including managing the space provided to sponsored projects.

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.
- *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 SDSU Global Campus.

- *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.

The current year budget projections reflect the following changes in overall facilities expenses:

Facilities Expense

	Original FY 2020-21	Mid-Year FY 2020-21	Proposed FY 2021-22	Proposed compared to FY 2020-21 Mid-Year Budget		Proposed compared to FY 2020-21 Original Budget	
				\$ Increase (Decrease)	% Increase (Decrease)	\$ Increase (Decrease)	% Increase (Decrease)
Facilities Operating Expense							
Salaries and Benefits	\$1,898,000	\$1,878,000	\$1,971,000	93,000		73,000	
Operational Expenses	1,831,000	1,766,000	1,797,000	31,000		(34,000)	
Insurance	658,000	655,000	808,000	153,000		150,000	
Utilities	1,408,000	1,258,000	1,457,000	199,000		49,000	
Property Taxes	241,000	219,000	330,000	111,000		89,000	
Contracted Services	998,000	975,000	895,000	(80,000)		(103,000)	
University Services/Parking	853,000	845,000	885,000	40,000		32,000	
	<u>7,887,000</u>	<u>7,596,000</u>	<u>8,143,000</u>	<u>547,000</u>	<u>7.2%</u>	<u>256,000</u>	<u>3.2%</u>
Other Expenses							
Capital & Tenant Improvements	1,106,000	1,106,000	1,081,000	(25,000)		(25,000)	
Debt Service	2,163,000	1,869,000	1,907,000	38,000		(256,000)	
	<u>3,269,000</u>	<u>2,975,000</u>	<u>2,988,000</u>	<u>13,000</u>		<u>(281,000)</u>	
	<u>11,156,000</u>	<u>10,571,000</u>	<u>11,131,000</u>	<u>560,000</u>	<u>5.3%</u>	<u>(25,000)</u>	<u>(0.2%)</u>

Facilities Operating Expense: The mid-year FY 2020-21 budget was reduced significantly due to the stay-at-home order. With savings in every category, the facilities budget was decreased by \$585,000 or 5.2% at mid-year. We are anticipating the stay-at-home order to be lifted, with staff possibly returning to campus in the fall 2021; therefore, all areas have been increased back to normal levels. The original FY 2021-22 budget is 0.2% less than the original FY 2020-21 budget.

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 2021-22 include the following:

- Two boiler replacements*
- HVAC replacements at various buildings
- Landscaping improvements
- Modernization of a large elevator*
- Exterior wood replacement and paint on 3 Alvarado buildings*
- Replacement of a roof on an Alvarado building*
- ADA improvements at several locations.

*A facilities conditions assessment was performed to identify recommendations for improvements on deferred maintenance. These items were recommendations from the assessment report.

Allocations for Enhanced Program Support (\$6,155,000) reflects a decrease of \$219,000 or 3.4% over the FY 2020-21 mid-year budget and \$388,000 or 5.9% compared to the FY 2020-21 original budget.

- **Allocations for Direct Support of Research (\$3,225,000).** This category refers to those resources allocated to principal investigators (PIs) and university units in direct support of proposal development, on-going research programs or other research endeavors. Allocations for Direct Support of Research decreased by \$122,000 or 3.6% from the FY 2020-21 mid-year budget and \$276,000 or 7.9% from the FY 2020-21 original budget. The majority of the decrease is due to the removal of a \$500,000 contingency allocation on the FY 2020-21 original budget to respond to the pandemic and corresponding potential disallowances/write-offs. We anticipate allocating the funds budgeted at mid-year of \$250,000 in FY 2020-21, with no additional contingency needed going forward.

- **Research Support Funds (RSF) (\$2,975,000).** These funds are allocated to colleges, principal investigators and the vice president for research and innovation 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) (\$2,975,000) reflects an increase of \$54,000 or 2.2% over the FY 2020-21 mid-year projection and \$160,000 or 5.7% compared to the FY 2020-21 original projection. The proposed FY 2021-22 budget funds 100.0% of the formula. As in previous years, 80.0% (\$2,380,000) of the budget amount will be provided at the beginning of FY 2021-22. The remaining 20.0% (\$595,000) will be distributed after the mid-year FY 2021-22 budget review if the projected unrestricted revenue goals are achieved. This RSF allocation will be updated at mid-year once the final F&A numbers are known for FY 2020-21 since the calculation and the amounts allocated in FY 2021-22 will be based upon actuals for FY 2020-21 according to policy.

- **Allocation for Research Initiatives (\$158,000).** Allocation for Research Initiatives is a new allocation for FY 2021-22 as a separate line item; however, this funding is a reclassification from the historical allocation provided for Research Advancement and TTO, as well as Biology PI Administrative Support. Reclassifying this allocation for research initiatives allows the Division of Research and Innovation more flexibility on how these funds can be utilized to promote research.
 - **University Grants Program (\$92,000).** Support for the University Grants Program for FY 2021-22 is consistent with the FY 2020-21 mid-year budget and the FY 2020-21 original budget. These funds are used to support scholarly research, assists faculty at lower ranks meet qualifications for retention, tenure and promotion, allows faculty to bring advanced projects to conclusion and facilitates development of a research program that may be competitive for extramural funding.
 - **Biology PI Administrative Support (\$0).** Biology PI Administrative Support for FY 2021-22 has been reclassified to Allocation for Research Initiatives. Reclassification of this allocation will allow for more flexibility to support ongoing research.
 - **Write-off Contingency (\$0).** 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. These funds will be set aside in FY 2020-21, with no additional contingency anticipated to be needed going forward.
- **Allocations for Support of Research Infrastructure (\$2,668,000)** reflects a decrease of \$39,000 or 1.4% over the FY 2020-21 mid-year budget and \$54,000 or 2.0% compared to the FY 2020-21 original budget. This category refers to allocations made in support of the infrastructure necessary to support and grow the research enterprise.

- **Project Facilities and Equipment Support (\$637,000)** reflects an increase of \$65,000 or 11.4% over mid-year projection and \$114,000 or 21.8% over the original FY2020-21 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. These funds also cover allocations from the university for software and cybersecurity services provided to support SDSURF employees funded on grants and contracts. Several discounts on information technology (IT) contracts expired in FY 2020-21, resulting in a large increase in cost-share IT chargebacks received from campus as well as the significantly increased use of zoom.
- **F&A – Library Study and Rate Negotiation (\$0)** was a new allocation in FY 2020-21 for both a library study and space software needed for the upcoming F&A rate preparation and negotiation. We requested and received another extension of our base year to FY 2022-23. As these funds were allocated a set aside in the current fiscal year, an additional allocation is not needed for FY 2021-22.
- **Research Support - Library (\$50,000)** reflects no change from FY 2020-21 mid-year budget and the FY 2020-21 original budget. 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 (\$1,311,000)** reflects an increase of \$30,000 or 2.3% over the FY 2020-21 mid-year projection and a decrease of \$79,000 or 5.7% from the FY 2020-21 original projection. The increase from mid-year projection for FY 2020-21 is due to salary savings from open positions which took time to fill; the reclassification of \$58,000 to Allocations for Research Initiatives provided savings in this line item from the original budget.
- **Research Endowment Distribution (\$600,000)**. SDSURF will continue to make a \$600,000 annual contribution to the Research Endowment Distribution Fund. The funds will support research by replacing the distribution of the research endowment held at The Campanile Foundation.
- **University Research Space (\$70,000)** reflects no change compared to the FY 2020-21 mid-year projection as well as the FY 2020-21 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 (\$262,000)** reflects a decrease of \$58,000 or 4.5% from the FY 2020-21 mid-year budget and 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 (\$100,000)** reflects a decrease of \$100,000 or 50.0% from the FY 2020-21 mid-year projection and the FY 2020-21 original projection. SDSURF strategically invests in systems and infrastructure to streamline operations, enhance services to PIs and Project Directors, and to support increased research activity as SDSU moves towards becoming an R1 research university. Investments in FY 2021-22 will be focused on the following initiatives:
 - 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 SDSU Single Sign On (SSO) for MyRF, Workforce, and the leave administration system.
 - Implementation of new software to streamline the procure to pay process, as well as allow for online travel and expense requests.
 - Enhancements to the InfoEd sub-award and sub-recipient functionality to streamline the process with routing, communications, and other features specific to sub-agreements.

- **Washington D.C. Representation (\$162,000).** SDSU Research Foundation engaged a new advocacy firm, Van Scoyoc Associates (VSA) during FY 2020-21, along with a VSA sister company, The Implementation Group (TIG). These two firms replaced the prior 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. Additionally, TIG provides support for large scale grant opportunities.

Reserves

Source of Funds is projected to be \$33,103,000, while Use of Funds is projected to be \$33,465,000, leaving \$362,000 needed from Reserves in order to balance the budget.

APPENDIX A RESERVES

The FY 2021-22 budget reflects the need to use \$362,000 from Reserves to balance the budget.

Maintaining adequate reserves is critical to any business organization, especially for non-governmental organizations dependent on generating annual revenues to support their activities. Research foundation revenues are projected prior to the beginning of a fiscal year and are committed mainly for program support (operating) costs, facilities (space) costs, and university support activities (allocations). Operating reserves are necessary to provide working capital to carry on daily activities, to guard against a decrease in projected revenue or increase in projected expenditures, to cover potential unallowable costs for grants and contracts, and to cover over-expenditures of project activities. We continue to work toward sustaining a balanced budget with a goal to add to reserves. The unexpected nature and impact of the pandemic has heightened our focus on the need for adequate reserves.

	Projected Balance 6/30/2021	Goal for Reserve as of FY 2020-21	Additional Funds needed to meet Reserve goal
Discretionary			
Operating Cash Reserves			
Income Equalization	1,055,000	1,127,900	72,900
Working Capital	4,392,000	7,191,519	2,799,519
General Fund Endowment	3,528,000	3,528,000	-
Total Operating Cash Reserves	8,975,000	11,847,419	2,872,419
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	1,054,000	1,054,000	-
Total Designated Reserves	3,414,000	4,054,000	640,000
Total Discretionary	12,389,000	15,901,419	3,512,419
Real Estate Deficit	(4,884,000)		4,884,000
	7,505,000		8,396,419

Discretionary Reserve Goals

Operating Cash Reserves

Income Equalization – The goal of the income equalization reserve requires an estimation based on management’s ability to project F&A cost recovery. The current reserve goal is five percent of annual F&A cost recovery.

Working Capital – The goal for the working capital reserve has historically been established at five percent of unexpended grant and contract awards (Work in Process), to provide for cash flow requirements.

General Fund Endowment – The general fund 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 SDSURF 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.

Operating Contingency – Historically, the operating contingency 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 grant 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 – The facilities 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 – The utilities 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 – The insurance reserve was established in FY 2012-13 in anticipation of a change in the required deductibles on SDSURF’s insurance programs. Management is working to establish the goal for this reserve. Each general liability insurance claim has a deductible of \$100,000. The primary source of funding of this reserve will be funds recovered from insurance relating to claims in prior budget periods.

Note – Real Estate Deficit relates to the unfunded obligation (funds spend into deficit position) within its board- designated and property funds related to various strategic land acquisitions, the redevelopment project and the Fraternity Row constructed defects lawsuit. The ultimate source of funds to repay these particular deficits will be the underlying market value of real property owned by SDSURF. When SDSURF receives net income from the development on Montezuma as well as M at College, the funds will be used to reduce this deficit.

Non-Discretionary Reserves

These reserves are designated for specific purposes and not accessible for general operations.

	Projected Balance 6/30/2021
Non-discretionary	
Research Endowment	925,000
Retiree Medical VEBA Trust	14,127,000
Employee Fringe Benefits	1,819,000
Workers’ Compensation Insurance	2,599,000
Unemployment Insurance	2,482,878
Total Non-discretionary	<u><u>21,952,878</u></u>