CAL POLY

CORPORATION

OPERATING BUDGET & CAPITAL OUTLAY PROPOSAL

Sponsored Programs Administration

Fiscal Year 2016-17

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BUSINESS OVERVIEW

Sponsored Programs, in accordance with the Chancellor's Executive Order 890, provides essential functions and services to the Cal Poly community to further its educational mission and scholarly endeavors.

Sponsored Programs provides efficient and effective post-award administration support for research projects, workshops, conferences, centers and institutes, fee-for-service, and other projects that enrich the scholarly endeavors of Cal Poly from award negotiation and acceptance through project closeout and record retention.

The primary objectives of Sponsored Programs are as follows:

- To support faculty scholarship and student “learn-by-doing” opportunities by providing financial and compliance services for sponsored programs and related activities.
- To effectively participate in the proposal submission process, with the university’s Grants Development office, when appropriate.
- To perform a thorough review and, in negotiations, engage the appropriate campus units to affect favorable contract and grant terms and conditions prior to acceptance of an award.
- To provide research administration consulting services to project directors to assist or support them with fulfilling the administrative and compliance research, instructional, or other contract or grant objectives.
- To protect Cal Poly Corporation and university interests by closely monitoring project accounts to avoid audit disallowance, over-expenditures, uninsured risks, or other potentially negative consequences.
- To satisfactorily provide stakeholders with pertinent financial and technical status information as appropriate.
- To facilitate the Facilities and Administration proposal submission, rate negotiation, agreement acceptance, and extension request with the proper Federal Division of Cost Allocation delegate.

2015-16 ACCOMPLISHMENTS

- Underwent a diagnostic review in the prior year, with the aid of an outside consultant to review our readiness and compliance with new regulatory provisions for the administration of federally funded projects. Since then, Sponsored Programs Administration (SPA) has completed a review of all policies and procedures that reflect a higher risk exposure if not reviewed to improve uniform guidance compliance readiness.
- Reshaped a portion of its organizational structure after the departure of four integral staff members, and is working to recruit for the open positions by the end of the year.
- Partnered with the Grants Development Office (GDO) for a joint workgroup to identify, review and formulate reasonable options that will allow the two offices to increase operational functionality for campus clients, which included process improvements for no-cost extensions, budgeting requests and award negotiation.
- Collaborated with campus units to test and implement the access of GDO pre-award records from a single shared site, instead of emailing the files which was the former practice.
- Participated in the preparation, development, and submission of the annual composite fringe benefit rate and proposal to the Department of Health and Human Services.
- Participated in the Office of Research and Economic Development's organizational review of research administration in Spring 2016.
- Completed several external sponsor audits, the A-133 single audit, desk audits, export license reviews and property reviews with no significant findings.

2016-17 GOALS & OBJECTIVES

- Develop and implement necessary policies and procedures to comply with the second phase of 2 CFR 200.300, Uniform Guidance - Procurement, which becomes effective July 1, 2016.
- Review and update, as needed, policies and procedures affected by the first phase of the implementation of 2 CFR 200, Uniform Guidance, to ensure consistencies with federal clarifications and industry best practices.
- Participate in a Corporation workgroup to develop a strategic plan for the composite fringe benefit rate to mitigate rising health and long-term care costs for benefited employees.
- Work closely with the Dean of Research and other campus stakeholders to determine the feasibility of submitting a new Facilities and Administrative verse seeking a single or multi-year extension. The next scheduled base year is FY 2016-17.
- Develop and apply new approaches to enhance customer support to our clients, including increased in-person support and outreach.
- Develop, with GDO, a shared process of a single site use and naming conventions for all official research agreements proposed by GDO (pre-award) and managed by SPA (post-award).
- Continue to implement streamlined electronic processes utilizing the capabilities provided through the financial management database program (ONESolution), including enhancements to reporting tools that better support our customers.
- Identify, research, review, document and implement any agreed-upon process improvements identified in the Office of Research and Economic Development's organizational review of research administration.

2016-17 OPERATING BUDGET PROPOSAL

(in thousands) **	Fiscal Year 2014-15 Actual	Fiscal Year 2015-16 Budget	Fiscal Year 2015-16 Estimate*	Fiscal Year 2016-17 Budget Proposal	2016-17 Budget v. Estimate Variance	% Variance
Contract & Grant IDC Income	$3,080	$2,900	$3,244	$3,328	$85	3%
Contract & Grant Admin Fees	5	5	4	4	0	5%
Center & Institute Admin Fees	126	102	136	150	14	10%
Other Revenues	148	151	196	167	(29)	-15%
Income Before Operations	**3,359**	**3,158**	**3,579**	**3,649**	**70**	**2%**
Salaries & Wages	518	579	571	587	(16)	-3%
Benefits	294	322	314	364	(49)	-16%
Total Payroll Expense	**813**	**901**	**885**	**951**	**(65)**	**-7%**
Audit & Tax	11	11	11	11	0	2%
CPC Administrative Assessment	609	627	627	678	(51)	-8%
Other Operating Expenses	167	176	162	174	(12)	-7%
Total Operating Expenses	**787**	**814**	**801**	**863**	**(62)**	**-8%**
Total Expenses	**1,600**	**1,715**	**1,686**	**1,814**	**(127)**	**-8%**
Net from Operations	**1,759**	**1,443**	**1,892**	**1,835**	**(58)**	**-3%**
Other Income (Expense)	(87)	0	(9)	0	9	100%
Total Other Income (Expense)	**(87)**	**0**	**(9)**	**0**	**9**	**100%**
Transfers In (Out)	**(1,505)**	**(1,232)**	**(1,616)**	**(1,812)**	**(197)**	**-12%**
Change in Net Position	**$167**	**$211**	**$268**	**$22**	**$(246)**	**-92%**

* Estimate based on nine months actual and three months estimate
** Columns may not foot due to rounding

OPERATING BUDGET DISCUSSION

Total **Income Before Operations** for FY 2015-16 exceeds budget projections by approximately $421,000, primarily due to an increase in Contract and Grant Income from Sponsored Programs expenditure activity. The primary areas of increased activity include the federal and non-profit industry sectors. Other Revenues, which primarily consist of fee-for-service operations, are projected to exceed the budget for FY 2015-16 by $45,000, primarily due to a new center with several large projects that elevated revenue. FY 2016-17 Contract and Grant Income is expected to increase by $85,000 from prior-year based on the assumption that the activity in the federal and non-profit sectors will continue to grow. Other Revenues in FY 2016-17 are budgeted to decrease by $29,000 based on the assumption that the new center activity will not continue in FY 2016-17 since it is too difficult to predict.

Total **Payroll Expense** for the current year reflects small salary and wage savings when compared to the budget due to a recent retirement, which position that was left temporarily vacant. The FY 2016-17 Payroll Expense budget reflects a 7% increase from the prior year. This increase includes a 3% merit pool as well as an increase in the minimum wage. In addition, the budget reflects higher fringe benefit costs for regular benefited employee.

Total **Operating Expenses** for the current year are anticipated to be slightly below budget, which is the result of savings in liability insurance and depreciation expense. FY 2016-17 Operating Expenses are expected to increase $62,000, primarily due to increases in the CPC Administrative Assessment and the CPSU AFD cost allocation. The increase in the CPC assessment was the result of a comprehensive assessment study performed by the Corporation business office during FY 2015-16. The total AFD cost allocation is provided by the university along with data used to determine each department's individual portion.

Transfers Out represents funds allocated by the Dean of Research for expenditure by various university departments involved in campus research programs. Transfers Out is expected to increase by $197,000 as a result of no further funding requirements for the C& I OPEB Reserve past FY 2015-16.

The **Change in Net Position** allocates residual funds to the Operating Reserve, Contract and Grant Audit Reserve, C& I OPEB Reserve and a Capital Outlay Reserve.

STATEMENT OF RESERVES OVERVIEW

	Operating Reserve	Contract & Grant Audit Reserve	C&I OPEB Reserve	Capital Outlay Reserve	Total
June 30, 2014 Reserve Balance	$401,500	$311,646	$(400,661)	$0	$312,485
FY 2014-15 Net to Reserves	12,333	(60,994)	200,331	15,000	166,670
June 30, 2015 Reserve Balance	413,833	250,652	(200,330)	15,000	479,155
FY 2015-16 Net to Reserves (estimated)	11,174	71,440	200,330	(15,000)	267,944
June 30, 2016 Reserve Balance (estimate)	425,007	322,092	0	0	747,099
FY 2016-17 Net to Reserves (budget)	12,750	9,663	0	0	22,413
June 30, 2017 Reserve Balance (budget)	**$437,757**	**$331,755**	**$0**	**$0**	**$769,512**

The **Operating Reserve** represents working capital held for contingencies and continuing operations. The reserve balance is targeted to equal 25% of the average of the past two years and subsequent year's budgeted payroll and operating expenditures or roughly three months of expenditures.

The **Contract & Grant Audit Reserve** is a contingency reserve established in the unlikely event that the Corporation is not able to recover from sponsor funding expended on a project. The target reserve is equal to 1.5% of the average of the past three years actual contract and grant expenditures, not to exceed $500,000.

The **Centers & Institute OPEB** reserve was established to fund the postretirement medical benefit obligation (OPEB) for Corporation employees and retirees working for various Centers and Institutes. The target is to fund 100% of Centers and Institutes retiree and vested employee post-retirement medical benefits. This reserve is to be funded over a five-year period, beginning in FY 2011-12 and ending in FY 2015-16.

Capital Outlay Reserves are held to fund, at a minimum, the subsequent year’s capital outlay request.

CAPITAL OUTLAY REQUEST

There are no capital outlays requested for FY 2016-17.

CAL POLY
CORPORATION

OPERATING BUDGET & CAPITAL OUTLAY PROPOSAL

General Administration

Fiscal Year 2016-17

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BUSINESS OVERVIEW

Cal Poly Corporation's General Administration (GA) provides a variety of fiscal and administrative services to assist the Corporation in fulfilling its mission to provide self-supporting quality services. This assistance complements the instructional program of the university and supports the institution in achieving its educational mission. General Administration staff is committed to enhancing the quality of education at the university by:

- Providing professional customer service that meets the needs of those we serve.
- Building economic strength through skillful use of GA financial, technological, and human resources.
- Complying with all applicable laws and regulations and ensuring open and transparent fiscal reporting.

In addition to departments of the Corporation, GA provides fiscal and administrative support services to other on-campus organizations, including the university, Cal Poly Foundation, the Alumni Association, Associated Students, Inc., and the Performing Arts Center.

The GA budget includes the following Corporation operations:

Executive Office - Activities of the Corporation Executive Office include business and policy development, administration, legal affairs, and public relations. Under the leadership of the Executive Director, the Executive Office works directly with the vice president of administration and finance and the Corporation Board of Directors to lead the overall management of the Corporation. The Executive Office also collaborates with other on-campus organizations to assist the university in achieving its long-term goals and objectives.

Human Resources –Through collaboration with other Corporation departments, Human Resources recruits, develops, trains, and retains a workforce of more than 200 full-time employees and over 1,000 part-time student employees. Its goal is to foster a healthy, safe, and productive work environment and position the Corporation as an employer of choice.

Business and Finance Office –The Corporation Business and Finance Office manages fiscal services for internal departments and external organizations. The Business and Finance Office provides business and financial analysis, accounting, and financial reporting services to its customers and maintains an integrated, online financial reporting system. Departments within the Business and Finance Office include Payroll, Accounts Receivable and Travel, Accounts Payable and General Accounting, Campus Programs Income and Gift Management, Cashiering, and Investments and Treasury.

Marketing and Communications (MARCOM) –The MARCOM department provides a variety of marketing and communication services to the Corporation’s administrative and commercial operations as well as to other on and off-campus organizations. MARCOM is responsible for internal and external communications, including media point of contact and press releases. MARCOM’s goal is to use creativity developing integrated marketing solutions that exceed its customer’s business objectives. Its services include strategic planning, public relations, social media marketing, digital and offline advertising, direct mail marketing, website development, email marketing, media planning and buying, graphic design, video production and photography.

Information Technology (IT) - The IT department provides a broad spectrum of information technology services for the Corporation's administrative and commercial operations. IT explores, evaluates, promotes, recommends, develops and supports the application of technological solutions to the tasks of information storage and recovery, processing, and delivery. IT also provides PC and other computing equipment support, Help Desk support, computer account administration, network administration, computing asset management, software/hardware installation on workstations and servers, a full range of web development and hosting services, database administration, and application development and support.

General Administration operations are funded primarily through cost-recovery allocations and assessments charged to internal Corporation departments based on resource usage. In addition, General Administration receives fees for fiscal and administrative services provided to external organizations. Finally, General Administration operations are also partially funded by net investment income (interest plus dividends, less fees) from the General Investment Fund.

2015-16 ACCOMPLISHMENTS

- Implemented the incorporation of the allocated service units to General Administration (IT Support, Facilities and MARCOM)
- Completed a full review of all General Administration assessments, fees and cost allocation methodologies in order to create greater transparency for users and ensure alignment with the related services provided
- Successfully executed a Request for Proposal (RFP) for audit and tax services and awarded a contract to the firm selected
- Collaborated with Sponsored Programs Administration on the development, preparation and submission of the annual composite fringe benefit rate and proposal to the Department of Health and Human Services
- Streamlined invoice and payment processes between the Corporation and the university to automate data entry and expedite payments
- Instituted sick leave for intermittent, student, and casual employees as a result of recently passed State legislation
- Implemented new background check requirements of the CSU
- Collaborated with the university to implement a new web-based training software, Skillsoft
- Implemented the reporting and filing requirements of the Affordable Care Act
- Made a set of the most commonly used financial system reports available via the Cal Poly portal on a new Corporation-specific tab
- Upgraded the Corporation's network infrastructure to be compliant with CSU standards
- Continued the development of the MARCOM department by establishing marketing and communication fundamental practices including communication planning, brand development and reputation management, and by hiring two key roles: Web Developer and Content Strategist and Designer
- MARCOM won national recognition for the development of a Campus Dining native ad

2016-17 GOALS & OBJECTIVES

- Execute the issuance of California State University (CSU) System wide Revenue Bonds for the construction of the future Culinary Support Center
- Conduct a formal review of the Corporation's investment advisor under the direction of the Board's Investment Advisory Committee
- Complete an actuarial study of the Corporation's retiree healthcare obligations and incorporate the results of the study into the broader assessment of the sustainability of the Corporation's composite fringe benefit rate
- Assess the campus impact of delegating certain commercial activities to outside service providers
- Collaborate with University Administration and Finance to continue streamlining accounting processes between the Corporation and the university
- Complete revision, update and implementation of the Corporation's Employee Handbook
- Formalize a strategy to address the impact of changes in State minimum wage and salary requirements on the Corporation's compensation structure over the next five-year period
- Complete the integration of all significant financial reports in the new Cognos reporting tool
- Compete the upgrade of all credit card processors to be Europay, Mastercard, Visa (EMV) compliant
- Establish metrics to measure marketing and communication success to optimize ongoing efforts
- Migrate Cal Poly Corporation websites (excluding University Store) to a WordPress customer management system in order to create greater efficiencies in publishing up-to-date content

2016-17 OPERATING BUDGET PROPOSAL

(in thousands) **	Fiscal Year 2014-15 Actual	Fiscal Year 2015-16 Budget	Fiscal Year 2015-16 Estimate*	Fiscal Year 2016-17 Budget Proposal	2016-17 Budget v. Estimate Variance	% Variance
Assessment Income	$2,458	$2,496	$2,496	$2,621	$125	5%
Fee for Service Income	568	626	625	691	66	11%
CPC Allocated Services	-	919	861	978	117	14%
Other Revenues	604	535	529	485	(45)	-8%
Income Before Operations	**3,629**	**4,575**	**4,511**	**4,774**	**263**	**6%**
Salaries & Wages	2,352	2,902	2,760	2,885	(125)	-5%
Benefits	1,185	1,459	1,430	1,599	(169)	-12%
Total Payroll Expense	**3,537**	**4,361**	**4,190**	**4,484**	**(294)**	**-7%**
Depreciation & Amortization	141	163	159	154	5	3%
Software / Hardware Maintenance	139	170	163	168	(5)	-3%
General Maintenance	20	24	24	24	(0)	0%
Supplies & Equipment	67	102	86	102	(16)	-18%
Rent / Lease Expense	201	201	196	201	(5)	-3%
Audit & Tax	121	120	120	123	(3)	-3%
Other Operating Expenses	396	395	445	416	28	6%
Total Operating Expenses	**1,087**	**1,174**	**1,212**	**1,208**	**4**	**0%**
Total Expenses	**4,624**	**5,535**	**5,402**	**5,692**	**(290)**	**-5%**
Net from Operations	**(995)**	**(960)**	**(891)**	**(918)**	**(27)**	**-3%**
Other Income (Expense)	(5)	-	(14)	-	14	100%
Total Other Income (Expense)	**(5)**	**-**	**(14)**	**-**	**14**	**100%**
Transfers In (Out)	**1,528**	**960**	**930**	**918**	**(12)**	**-1%**
Change in Net Position	**$528**	**-**	**$25**	**$0**	**$(25)**	**-98%**

* Estimate based on nine months actual and three months estimate
** Columns may not foot due to rounding

OPERATING BUDGET DISCUSSION

REVENUES

Total revenues for the current year are projected to end slightly under budget. This variance can be primarily attributed to a reduction in fees collected for allocated services (IT Support, Facilities, and MARCOM). Allocated service units are profit neutral and, therefore, any changes in expenses will result in a corresponding change in revenues. Expenses for allocated service units are under budget for the current year primarily the result of personnel vacancies in IT Support Services.

In addition, Fee for Service Income is slightly under budget for the current year. This income represents fees charged for services provided to agencies and third parties, including Associated Students, Inc. and the Foundation. The unfavorable variance is primarily the result of a decrease in fees collected from the California Specialized Training Institute (CSTI). Fees to CSTI are based on a percentage of expenditures, which have decreased this year as a result of less funding received for classes.

The increase in revenues for FY 2016-17 primarily relates to an increase in assessments charged to Corporation departments. During FY 2015-16, the Corporation Business and Finance Office completed a comprehensive study of assessments charged to Corporation departments. The increase in assessment income for FY 2016-17 reflects the results of this study. In addition, fees collected for allocated services are expected to increase in FY 2016-17. The increase reflects personnel additions to Facilities and MARCOM.

PAYROLL

Payroll expenses are projected to finish this year approximately $142,000 below budget. As mentioned previously, payroll expenses for allocated service units are under budget for the current year primarily the result of personnel vacancies in IT Support Services. In addition, budgeted salary and wage increases were 3%. Actual increases were closer to 2%.

Payroll expenses are expected to increase $294,000, or 7%, for FY 2016-17. As mentioned previously, payroll expenses for allocated service units are expected to increase, the result of personnel additions to Facilities and MARCOM. FY 2016-17 payroll projections also include a 3% merit pool, a mandated minimum wage adjustment, and higher fringe benefit costs for regular benefited employees.

OPERATING EXPENSES

Total Operating expenses for the current year are expected to end approximately $38,000 over budget. The primary reason for the variance is the result of an unanticipated increase in the university's AFD (Administration and Finance Division) cost allocation. Corporation budgets were finalized in May of 2015, but the AFD cost allocation was not received from the university until August of 2016. The increase in the allocation to the Corporation was the result of a decrease in the offset related to ARI (Agricultural Research Institute) funds managed by the Corporation.

For FY 2016-17, total operating expenses are expected to remain consistent with the current year, with minor fluctuations within individual operating expense accounts.

NET FROM OPERATIONS

General Administration operations are partially funded by net investment income (interest plus dividends, less fees) from the General Investment Fund. FY 2015-16 Transfers In represent approximately $905,000 in net investment income from the General Investment Fund and $25,000 from surplus General Administration reserves held in the plant fund. Reserve transfers from the plant fund are primarily meant to fund operating and capital outlay reserve requirements. Transfers In from the General Investment Fund for FY 2016-17 are budgeted to be $918,000 and are intended to supplement General Administration operations.

GENERAL INVESTMENT FUND DISCUSSION

The General Investment Fund is held within the General Fund and is comprised of three investment pools. The Corporate Investment Pool and the Student Investment Management Program (SIMP) are long-term pools invested in traditional instruments (stocks and bonds and, in the case of SIMP, exchange traded funds). The Internal Fund holds assets comprised of cash management accounts (money market funds, certificates of deposit and short to mid-term fixed income mutual funds).

Due to the unpredictable nature of the investment market, activities of the General Investment Fund are not consolidated with the General Administration budget. Market losses have totaled $1.4 million for the first ten months of the fiscal year resulting in an overall net operating loss of $380,000 over the same period. Absolute market returns have decreased overall. In addition, tactical asset allocations have not performed as anticipated.

Net investment income from the General Investment Fund helps to support the General Administration budget, assist with Corporation special projects, and build Corporation reserves. The Corporation projects that it will transfer approximately $905,000 in current year dividend and interest income from the General Investment Fund to General Administration in FY 2015-16. As of April 30, 2016, the combination of current year market value losses and transfers to General Administration have exceeded current year net investment income, resulting in an overall decrease in net position for the General Investment Fund of $1.4 million.

The Corporation's reserve policies allow the Corporation to be well positioned for years with poor investment returns. Corporation reserves held for such purposes include the following:

Investment Reserve –This reserve is intended to establish a contingency reserve to cover potential General Investment Fund losses. The reserve balance is currently equal to 30% of the value of General Fund investment equity securities as prescribed by Corporation policy.

General Administration Reserve –This reserve represents prior years' accumulation of net earnings in excess of General Investment Fund reserve requirements. It is used at the discretion of the Executive Director and Lead Financial Administrator (currently the Corporation Controller).

Past and projected reserve balances are as follows:

*(*Current year estimates are based on actual 10 month activity for the current year and estimated results for May and June of 2016. Note, that market value gains (losses) are not estimated.)*

	Investment Reserves	General Administration Reserves
June 30, 2015 Reserve Balance	$6,246,821	$5,086,392
FY 2015-16 Activity (estimate)*	(129,366)	(1,129,997)
June 30, 2016 Reserve Balance (estimate)*	6,117,455	3,956,395

STATEMENT OF RESERVES OVERVIEW

	Operating Reserve	Investment in Operating Assets (non-cash)	Capital Outlay Reserve	Total
June 30, 2014 Reserve Balance	$1,342,609	$294,323	$0	$1,636,932
FY 2014-15 Net to Reserves	268,991	152,393	106,812	528,196
June 30, 2015 Reserve Balance	1,611,600	446,716	106,812	2,165,128
FY 2015-16 Net to Reserves (estimate)	49,848	(17,716)	(7,079)	25,053
June 30, 2016 Reserve Balance (estimate)	1,661,448	429,000	99,733	2,190,181
FY 2016-17 Net to Reserves (budget)	49,843	(54,282)	4,439	0
June 30, 2017 Reserve Balance (budget)	**$1,711,291**	**$374,718**	**$104,172**	**$2,190,181**

General Administration reserves represent an accumulation of prior earnings and are separated into three major categories: Operating Reserves (working capital reserves), Investment in Operating Assets, and Capital Outlay Reserves.

Operating Reserves represents working capital held for contingencies and continuing operations. The targeted reserve balance for the reserve is equal to 30% of the subsequent year's payroll and operating expense budget (less depreciation expense). It is anticipated that FY 2016-17 earnings will be sufficient to fully fund the reserve.

Investment in Operating Assets for June 30, 2016 (estimate) and June 30, 2017 (budget) represents our investment in capital assets, net of accumulated depreciation and amortization, and also net of any outstanding principal balances of related debt.

Capital Outlay Reserves are held to fund, at a minimum, the subsequent year’s capital outlay request.

CAPITAL OUTLAY REQUEST

Major Capital Equipment Outlay (Over $25,000)	Estimate	Years	Annual Depreciation
Central Log Management System	$42,145	5	$8,429
Total Major Capital Outlay	**$42,145**		**$8,429**
Minor Capital Equipment Outlay (Up To $25,000)			
Large Format Printer	$5,375	4	$1,344
Fiber Switches	14,212	5	2,842
Total Minor Capital Outlay	**$19,587**		**$4,186**
Total Capital Outlay Request	**$61,732**		**$12,615**

CAPITAL OUTLAY REQUEST DETAIL

The **Central Log Management System** was part of the capital outlay request in FY 2015-16 but was not purchased due to other priorities and resource constraints. The CSU information security policy requires that an appropriate monitoring system is installed to monitor activities and control unauthorized access. As the Corporation prepares for a data center audit in 2017, acquiring the system becomes more of a priority.

A new **Large Format Printer** is needed to replace aging equipment. The new printer will realize significant cost savings with the efficiencies of printing posters in-house rather than outsourcing production.

Fiber Switches were also part of the FY 2015-16 capital outlay request but were not purchased due to other priorities and resource constraints. These are required for communication between the Corporation data center and a disaster recovery location.

CAL POLY

CORPORATION

OPERATING BUDGET & CAPITAL OUTLAY PROPOSAL

Plant Operations

Fiscal Year 2016-17

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BUSINESS OVERVIEW

Plant Operations serve to support the Corporation's vision of providing facilities and services that support the educational mission of the university. Activities of Plant Operations include the acquisition, construction, expansion, maintenance and operation of Corporation-managed facilities. Occupants of these facilities provide rent for their usage. Rental charges are designed to fund on-going Plant Operations and realize net-to-reserves sufficient to cover future maintenance, repair, renovation and replacement of these assets.

Included in this budget are the following Corporation-managed facilities:

Corporation Administration Building – In 1989, the Corporation completed the construction of its administration building (Building 15). This building is considered the Corporation business office and hosts all of the major activities of General Administration, including the executive office, finance and accounting, human resources, facilities operations, information technology, corporate board room and staff training facility.

Corporation Warehouse – In 1989, the Corporation also completed the construction of its warehouse (Building 82). This building provides additional storage space for Campus Dining and University Store operations. In addition, General Administration and University Distribution Services occupy a portion of the building for their respective warehousing needs.

Bella Montaña – This residential housing community was originally designed and constructed under the management of Cal Poly Housing Corporation (CPHC) with funding provided by the Corporation. Its purpose was to provide affordable housing for Cal Poly faculty and staff. In February of 2012, the Corporation accepted all of the assets, liabilities, and activities of CPHC. Since 2012, eight units have been sold. Proceeds from these sales are used to repay the Corporation for original funding provided.

As of May 2016, the Corporation owns five condominiums within Bella Montaña. One condominium is available for corporate transitional housing, two units are rented to Cal Poly faculty and staff, and two units are held on behalf of the Orfalea College of Business (OCOB). These units are rented to visiting lecturers and faculty. Operating expenses for these units are funded by Cal Poly Foundation gift funds and endowment payouts.

Grand Avenue – In December of 2013, the Corporation purchased four houses on Grand Avenue at Slack Street. These transactions were considered a strategic opportunity to purchase property right at the entrance to the campus. Funding for these units came from a contingency fund reserve set aside for gap funding for various university initiatives. The properties were placed in service last year and are subject to a lease, which ends in June 2018.

2015-16 ACCOMPLISHMENTS

- Property tax exemptions were approved for all Corporation-owned Bella Montaña rental units
- The Bella Montaña corporate executive unit was budgeted to be rented for only half of the fiscal year, but has been rented for a majority of the fiscal year
- Reinstated the original provisions of the Bella Montaña ground sublease, which provides the Corporation a repurchase option of units owned by non-Cal Poly faculty or staff after five years
- Grand Avenue properties were rented for the entire fiscal-year

2016-17 GOALS & OBJECTIVES

- Complete exterior paint and repairs of the Corporation Administration Building (Building 15)
- Install two electric cart-charging stations in the Corporation Administration Building parking lot (H-4)
- Replace the carpet in the Corporation Administration Building
- Install hardwood floors in the Bella Montaña corporate executive rental unit
- Renovate a portion of the Corporation Warehouse (Building 82) in conjunction with the construction of the Culinary Support Center

2016-17 OPERATING BUDGET PROPOSAL

(in thousands) **	Fiscal Year 2014-15 Actual	Fiscal Year 2015-16 Budget	Fiscal Year 2015-16 Estimate*	Fiscal Year 2016-17 Budget Proposal	2016-17 Budget v. Estimate Variance	% Variance
Sales	$318	-	-	-	-	0%
Cost of Goods Sold	196	-	-	-	-	0%
Gross Margin	**122**	**-**	**-**	**-**	**-**	**0%**
Occupancy Income	418	405	408	410	3	1%
Other Revenues	37	26	23	14	(9)	-40%
Income Before Operations	**577**	**431**	**431**	**424**	**(6)**	**-1%**
Depreciation & Amortization	183	189	176	187	(11)	-7%
General Maintenance	46	49	55	50	5	9%
Utilities	69	72	79	81	(2)	-3%
Supplies & Equipment	9	6	0	5	(5)	-5817%
Rent / Lease Expense	3	3	3	3	0	0%
CPC Administrative Assessment	27	28	28	27	1	3%
Other Operating Expenses	77	63	62	64	(2)	-3%
Total Operating Expenses	**416**	**410**	**403**	**418**	**(14)**	**-4%**
Total Expenses	**416**	**410**	**403**	**418**	**(14)**	**-4%**
Net from Operations	**161**	**21**	**27**	**7**	**(20)**	**-75%**
Other Income (Expense)	42	-	1	-	(1)	-100%
Total Other Income (Expense)	**42**	**-**	**1**	**-**	**(1)**	**-100%**
Transfers In (Out)	**(484)**	**-**	**-**	**-**	**-**	**0%**
Change in Net Position	**$(282)**	**$21**	**$28**	**$7**	**$(21)**	**-76%**

* Estimate based on nine months actual and three months estimate
** Columns may not foot due to rounding

OPERATING BUDGET DISCUSSION

Revenues

Sales and related Cost of Goods Sold represent the sale of Bella Montaña units. The Corporation sold one unit during FY 2014-15. No sales occurred in FY 2015-16 and none are expected in FY 2016-17.

Occupancy Income represents rental charges for the use of Corporation-managed facilities included in this budget. FY 2015-16 is slightly over budget, primarily the result of the Bella Montaña corporate executive unit being rented for a majority of the fiscal year, while the budget assumed this unit would be rented for only half of the year. FY 2016-17 anticipates full-year occupancy for two units and half-year occupancy for the third. Total Occupancy Income for FY 2016-17 is expected to increase slightly from FY 2015-16 projections, primarily the result of increases in rental rates charged for the Corporation Administration Building and the Corporation Warehouse. The increase in rental rates is the result of increases in operating costs for these buildings.

Other Revenues include funding received from the OCOB related to the operation and maintenance of the two condo units owned by the Corporation on the OCOB's behalf. Other Revenues in FY 2016-17 are expected to decrease as a result of a decrease in funding from the OCOB. These units have excess reserves on hand and, as such, require less funding in FY 2016-17 to support operating expenses.

Expenses

Total Operating expenses are expected to increase by 4% in FY 2016-17 due to increases in operating costs for the Corporation Administration Building and the Corporation Warehouse. The FY 2016-17 budget includes audio and video upgrades to the Corporation Administration Building boardroom. In addition, depreciation expense will increase as a result of capital outlays expected to occur in FY 2016-17.

Other Income

Other Income in FY 2014-15 represents the reversal of prior year interest expense incurred on the Grand Avenue properties. The corresponding interest income was written off in the General Investment Fund. The Grand Avenue properties are projected to be rented for the entire FY 2016-17.

STATEMENT OF RESERVES OVERVIEW

	Operating Reserve	Capital Replacement & Renewal	Building Expansion & Construction	Investment in Operating Assets (non-cash)	Total
June 30, 2014 Reserve Balance	$(31,030)	$3,576,587	$1,671,478	$2,664,593	$7,881,628
FY 2014-15 Net to Reserves	234,021	(1,981,607)	(90,761)	1,556,800	(281,547)
June 30, 2015 Reserve Balance	202,991	1,594,980	1,580,717	4,221,393	7,600,081
FY 2015-16 Net to Reserves (estimate)	27,282	166,987	(14,266)	(151,856)	28,147
June 30, 2016 Reserve Balance (estimate)	230,273	1,761,967	1,566,451	4,069,537	7,628,228
FY 2016-17 Net to Reserves (budget)	6,907	(77,431)	(781,489)	858,714	6,701
June 30, 2017 Reserve Balance (budget)	**$237,180**	**$1,684,536**	**$784,962**	**$4,928,251**	**$7,634,929**

Plant Operations maintains four separate reserves as follows:

The **Operating Reserve** represents working capital held for contingencies and continuing operations of the Bella Montaña housing units, the Grand Avenue Properties, the Corporation Warehouse, and the Corporation Administration Building. These reserves are calculated based on 100% of the subsequent year's budgeted operating expenses, excluding depreciation expense.

The **Capital Replacement & Renewal reserve** is used to fund capital projects such as roof repairs, window replacement, and infrastructure upgrades. The reserve funds are accumulated based on a survey of building components and their useful life. The reserve is fully funded.

The **Building Expansion & Construction reserve** funds are set aside to fund new facilities, such as an expansion or replacement of the Corporation Administration Building and new warehouse space for Campus Dining or the University Store.

Investment in Operating Assets represents an investment in capital assets of the facilities. The balance at the end of each fiscal year is equal to the cost of these assets, less accumulated depreciation and any debt related to those assets. The Investment in Operating Assets reserve is projected to increase by 21% in FY 2016-17, due to the renovation and relocation costs of occupants of the CPC Warehouse, which will be expanded for the Culinary Support Center.

CAPITAL OUTLAY REQUEST

Major Capital Equipment Outlay (Over $25,000)	Estimate	Years	Annual Depreciation
Minor Capital Equipment Outlay (Up To $25,000)			
Bella Montaña - Hardwood Floors	$10,000	5	$2,000
Total Minor Capital Outlay	**$10,000**		**$2,000**
Total Capital Outlay	**$10,000**		**$2,000**
Previously Approved Capital Outlay Requests (1)			
Administration Building - Trellis Paint and Repairs	$40,000	10	$4,000
Administration Building - Replace Carpet	96,000	15	6,400
Total Capital Outlay Request	**$146,000**		**$12,400**

CAPITAL OUTLAY REQUEST DETAIL

Hardwood Floors: The Bella Montaña corporate executive unit requires new carpeting every few years due to normal wear and tear to keep it looking clean. The Corporation has decided to install hardwood floors to the common areas of this unit (hallways, living area and kitchen) to reduce the need for future carpet installation and to improve the overall ambiance of the unit.

(1) The Capital Outlay Requests within this section were approved by the Board of Directors at their January 2016 meeting. They are repeated here for informational purposes only. No further action is required.

Trellis Paint and Repairs: The exterior of the Corporation Administration Building features metal trellises positioned on both the south and west ends of the building. The finish on the trellises has become weathered as evidenced by multiple areas of rust and chipped paint. The rust will continue to spread over time if not repaired. In addition, the existing paint contains lead and requires abatement. This work involves removing the existing paint and rust and refinishing the trellises.

Replace Carpet: The interior carpet of the Corporation Administration Building is in bad shape in many areas and in need of replacement. Areas of high traffic show wearing and fading. Other areas carry ripples, tears, and stains. This work involves removing and replacing the existing carpet throughout the building, and the temporary relocation of modular furniture during this process.

CAL POLY
CORPORATION

OPERATING BUDGET & CAPITAL OUTLAY PROPOSAL

University Store

Fiscal Year 2016-17

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BUSINESS OVERVIEW

The University Store is a self-supporting operation that has served the campus community since 1933, formerly as El Corral Bookstore and today as the University Store. It has two locations and employs 15 benefited staff and 180 part-time and student employees. It is focused on providing affordable products and services to support the educational mission of the university and its students. The University Store operations comprise four retail businesses:

The University Store - Located on campus, the University Store offers textbooks, technology, and academic supplies at affordable prices. It is a certified Apple retailer and has Apple-certified Mac technicians on the premises. The University Store also offers Cal Poly branded apparel and gifts to support Mustang spirit across the Cal Poly community.

Calpolystore.com - To serve the Cal Poly community online, calpolystore.com offers Cal Poly branded apparel and gifts, Cal Poly food products, textbooks, supplies and technology. It ships throughout the U.S. and overseas.

Cal Poly Downtown - Located in the center of San Luis Obispo, Cal Poly Downtown has served the San Luis Obispo community since 1993. It offers Cal Poly branded apparel, gifts, Cal Poly wines and Cal Poly food products.

Cal Poly Print and Copy - Located in Cal Poly's Robert E. Kennedy Library, Cal Poly Print & Copy offers a variety of print solutions. It specializes in small and large format printing to produce materials for presentations, events and the classroom. Cal Poly Print & Copy features online ordering and flexible hours to meet campus printing needs.

To support its retail operations, the University Store maintains a warehouse for shipping, receiving, processing and distribution of all items sold. The warehouse is also responsible for returning unused or defective items back to wholesalers. In FY 2015-16, the warehouse processed $8.5 million of merchandise.

2015-16 ACCOMPLISHMENTS

Implemented Hosted Inventory Control Point-of-Sale Program: The University Store upgraded its MBS inventory control software and moved toward a hosted, cloud-based system in March 2016. The upgrade provides for a PCI compliant system that utilizes the most current software upgrades.

Emblematic Goods: The University Store ranked number one in sales of emblematic goods throughout the CSU system and number three when compared to the UC system.

Developed and implemented Nike Concept Store: The University Store joined a small select group of universities to host a Nike concept store. The concept store consists of approximately 400 square feet of exclusive Nike gear along with specially created branded apparel and fixtures. Within the first month, over 1,200 pieces sold.

Enhanced Sales Floor Display Area and Manager Offices: The University Store added slat wall to the sales floor increasing display area and also added three offices to the sales floor to move staff closer to their departments, improving staff efficiency and productivity.

Leveraged Success of Store Managed Textbook Rental Program: In FY 2014-15, the University Store successfully implemented a self-managed rental program. For FY 2015-16, the University Store built on its success, promoting textbook rentals as an affordable courseware option and increased rental sales 25% each quarter, when compared to FY 2014-15. The University Store increased rental book partners from three to six, expanding more rental offerings for students. Furthermore, it began renting textbook bundles that were, on average, one-third of new retail prices on approximately ten titles. Students now are able to rent certain books that in the past weren't available to rent due to technology components tied to the bundle. This accomplishment was achieved by working close with publishers, faculty and wholesalers to provide the lowest possible price for our students.

Employed Alternative Textbook Sourcing Program: The University Store began utilizing specialized software that scoured online textbook marketplaces to purchase courseware at reduced costs. The savings were passed on to students and helped attain more competitive pricing.

Expanded Cal Poly Print and Copy Services: Cal Poly Print & Copy worked to build on its current year sales growth by expanding its array of services. This was accomplished by adding a large format laminator, which allowed customers the ability to laminate large prints, such as maps, posters and an air-fed folder for quicker turnover and a more professional look.

Cal Poly Downtown Store: Negotiated a favorable lease for Cal Poly Downtown's new location, which will open in FY 2016-17.

2016-17 GOALS & OBJECTIVES

Re-establish a University Store Advisory Committee: The University Store is working with university administration to form an advisory committee of faculty, students, and staff to enhance on-campus partnerships and to gain insight and non-binding strategic advice into University Store operations.

Install EMV Capable Pin Pads: The University Store will implement new pin pads compliant with a federally mandated requirement to accept EMV (Europay, MasterCard, and Visa) chip-embedded credit cards. These new pin pads will provide additional PCI security for University Store customers.

Expand campus outreach program: The University Store will build upon community outreach efforts started in FY 2015-16 to cultivate relationships with faculty, staff, and student groups. Outreach efforts will include increased faculty education in regards to textbook affordability and highlight various College of Agriculture products.

Develop annual marketing and promotional plan: The University Store, working with the Cal Poly Corporation Marketing and Communication Department, will develop a comprehensive blueprint of marketing efforts, outlining goals, target groups and events for FY 2016-17. This marketing plan will lead to a more targeted, consistent and effective program to enhance the University Store brands and sales efforts.

Implement Tech Center Trade-In Program: The University Store has established a partnership with Encore, a third party electronic device recycler. In FY 2016-17, Tech Center customers will have the ability to trade-in used, broken, or old devices in exchange for a University Store gift card. As part of the partnership agreement, the University Store will receive a commission from Encore on all electronic trade-ins. In addition to reinforcing the University Store's commitment to the environment and creating a new revenue stream, this partnership will increase Tech Center foot traffic and visibility.

Open a New Cal Poly Downtown Store: In FY 2016-17, Cal Poly Downtown will move to a new location on lower Higuera Street. This location will offer an additional 1200 square feet of retail space, giving it the opportunity to showcase Cal Poly branded food, wine, apparel and gifts to the San Luis Obispo community and Cal Poly alumni and friends.

2016-17 OPERATING BUDGET PROPOSAL

UNIVERSITY STORE & CAL POLY DOWNTOWN CONSOLIDATED

(in thousands) **	Fiscal Year 2014-15 Actual	% of Sales	Fiscal Year 2015-16 Budget	% of Sales	Fiscal Year 2015-16 Estimate*	% of Sales	Fiscal Year 2016-17 Budget Proposal	% of Sales	2016-17 Budget v. Estimate Variance	% Variance
Sales	$13,947	100%	$13,727	100%	$13,079	100%	$13,203	100%	$124	1%
Cost of Goods Sold	9,574	69%	9,132	67%	8,442	65%	8,466	64%	(24)	0%
Gross Margin	**4,373**	**31%**	**4,595**	**33%**	**4,637**	**35%**	**4,737**	**36%**	**100**	**2%**
Assessment Income	18	0%	-	0%	-	0%	-	0%	-	0%
Fee for Service Income	12	0%	-	0%	-	0%	-	0%	-	0%
Other Revenues	428	3%	339	2%	316	2%	337	3%	21	6%
Income Before Operations	**4,831**	**35%**	**4,934**	**36%**	**4,953**	**38%**	**5,074**	**38%**	**120**	**2%**
Salaries & Wages	1,737	12%	1,787	13%	1,595	12%	1,704	13%	(109)	-7%
Benefits	581	4%	568	4%	564	4%	553	4%	11	2%
Total Payroll Expense	**2,318**	**17%**	**2,355**	**17%**	**2,160**	**17%**	**2,258**	**17%**	**(98)**	**-5%**
Depreciation & Amortization	126	1%	126	1%	118	1%	121	1%	(3)	-3%
Rent / Lease Expense	179	1%	200	1%	201	2%	259	2%	(58)	-29%
CPC Administrative Assessment	644	5%	660	5%	660	5%	607	5%	52	8%
CPC Allocated Services	-	0%	277	2%	291	2%	240	2%	51	18%
Other Operating Expenses	846	6%	1,001	7%	821	6%	978	7%	(157)	-19%
Total Operating Expenses	**1,795**	**13%**	**2,264**	**16%**	**2,090**	**16%**	**2,205**	**17%**	**(114)**	**-5%**
Total Expenses	**4,113**	**29%**	**4,619**	**34%**	**4,250**	**32%**	**4,462**	**34%**	**(213)**	**-5%**
Net from Operations	**718**	**5%**	**316**	**2%**	**704**	**5%**	**611**	**5%**	**(92)**	**-13%**
Other Income (Expense)	4	0%	-	0%	22	0%	-	0%	(22)	-100%
University Services	(264)	-2%	(252)	-2%	(252)	-2%	(300)	-2%	(48)	-19%
Total Other Income (Expense)	**(260)**	**-2%**	**(252)**	**-2%**	**(230)**	**-2%**	**(300)**	**-2%**	**(70)**	**-31%**
Transfer to Plant Fund Reserves	**(2,496)**	**-18%**	**-**	**0%**	**-**	**0%**	**-**	**0%**	**-**	**0%**
Change in Net Position	**$(2,037)**	**-15%**	**$64**	**0%**	**$474**	**4%**	**$311**	**2%**	**$(163)**	**-34%**

* Estimate based on nine months actual and three months estimate
** Columns may not foot due to rounding
*** Amounts above include the activities of Cal Poly Print & Copy

UNIVERSITY STORE

(in thousands) **	Fiscal Year 2014-15 Actual	% of Sales	Fiscal Year 2015-16 Budget	% of Sales	Fiscal Year 2015-16 Estimate*	% of Sales	Fiscal Year 2016-17 Budget Proposal	% of Sales	2016-17 Budget v. Estimate Variance	% Variance
Sales	$12,550	100%	$12,260	100%	$11,687	100%	$11,783	100%	$96	1%
Cost of Goods Sold	8,886	71%	8,382	68%	7,749	66%	7,772	66%	(23)	0%
Gross Margin	**3,664**	**29%**	**3,878**	**32%**	**3,937**	**34%**	**4,010**	**34%**	**73**	**2%**
Assessment Income	18	0%	-	0%	-	0%	-	0%	-	0%
Fee for Service Income	12	0%	-	0%	-	0%	-	0%	-	0%
Other Revenues	428	3%	339	3%	316	3%	337	3%	21	6%
Income Before Operations	**4,122**	**33%**	**4,217**	**34%**	**4,254**	**36%**	**4,347**	**37%**	**93**	**2%**
Salaries & Wages	1,638	13%	1,666	14%	1,489	13%	1,608	14%	(119)	-8%
Benefits	560	4%	533	4%	535	5%	521	4%	15	3%
Total Payroll Expense	**2,198**	**18%**	**2,199**	**18%**	**2,024**	**17%**	**2,129**	**18%**	**(104)**	**-5%**
Depreciation & Amortization	123	1%	122	1%	115	1%	102	1%	13	11%
Rent / Lease Expense	58	0%	49	0%	52	0%	49	0%	3	6%
CPC Administrative Assessment	573	5%	587	5%	587	5%	547	5%	40	7%
CPC Allocated Services	-	0%	277	2%	291	2%	240	2%	51	18%
Other Operating Expenses	783	6%	915	7%	751	6%	887	8%	(135)	-18%
Total Operating Expenses	**1,537**	**12%**	**1,951**	**16%**	**1,796**	**15%**	**1,824**	**15%**	**(28)**	**-2%**
Total Expenses	**3,736**	**30%**	**4,149**	**34%**	**3,821**	**33%**	**3,953**	**34%**	**(132)**	**-3%**
Net from Operations	**387**	**3%**	**68**	**1%**	**433**	**4%**	**394**	**3%**	**(39)**	**-9%**
Other Income (Expense)	4	0%	-	0%	46	0%	-	0%	(46)	-100%
University Services	(237)	-2%	(226)	-2%	(226)	-2%	(271)	-2%	(45)	-20%
Total Other Income (Expense)	**(233)**	**-2%**	**(226)**	**-2%**	**(180)**	**-2%**	**(271)**	**-2%**	**(91)**	**-51%**
Transfer to Plant Fund Reserves	**(2,496)**	**-20%**	**-**	**0%**	**-**	**0%**	**-**	**0%**	**-**	**0%**
Change in Net Position	**$(2,341)**	**-19%**	**$(158)**	**-1%**	**$253**	**2%**	**$123**	**1%**	**$(130)**	**-51%**

* Estimate based on nine months actual and three months estimate
** Columns may not foot due to rounding
*** Amounts above include the activities of Cal Poly Print & Copy

CAL POLY DOWNTOWN

(in thousands) **	Fiscal Year 2014-15 Actual	% of Sales	Fiscal Year 2015-16 Budget	% of Sales	Fiscal Year 2015-16 Estimate*	% of Sales	Fiscal Year 2016-17 Budget Proposal	% of Sales	2016-17 Budget v. Estimate Variance	% Variance
Sales	$1,398	100%	$1,467	100%	$1,392	100%	$1,420	100%	$28	2%
Cost of Goods Sold	689	49%	750	51%	693	50%	694	49%	(1)	0%
Gross Margin	**709**	**51%**	**717**	**49%**	**700**	**50%**	**726**	**51%**	**27**	**4%**
Income Before Operations	**709**	**51%**	**717**	**49%**	**700**	**50%**	**726**	**51%**	**27**	**4%**
Salaries & Wages	99	7%	121	8%	106	8%	96	7%	10	9%
Benefits	21	1%	35	2%	29	2%	33	2%	(4)	-12%
Total Payroll Expense	**119**	**9%**	**156**	**11%**	**135**	**10%**	**129**	**9%**	**6**	**4%**
Depreciation & Amortization	3	0%	4	0%	3	0%	19	1%	(16)	-569%
Rent / Lease Expense	122	9%	151	10%	149	11%	210	15%	(61)	-41%
CPC Administrative Assessment	70	5%	73	5%	73	5%	61	4%	12	16%
Other Operating Expenses	63	5%	87	6%	70	5%	91	6%	(22)	-31%
Total Operating Expenses	**258**	**18%**	**314**	**21%**	**294**	**21%**	**380**	**27%**	**(86)**	**-29%**
Total Expenses	**377**	**27%**	**470**	**32%**	**429**	**31%**	**510**	**36%**	**(81)**	**-19%**
Net from Operations	**332**	**24%**	**248**	**17%**	**271**	**19%**	**217**	**15%**	**(54)**	**-20%**
Other Income (Expense)	(0)	0%	-	0%	(24)	-2%	-	0%	24	100%
University Services	(27)	-2%	(26)	-2%	(26)	-2%	(29)	-2%	(3)	-13%
Total Other Income (Expense)	**(27)**	**-2%**	**(26)**	**-2%**	**(50)**	**-4%**	**(29)**	**-2%**	**21**	**42%**
Change in Net Position	**$305**	**22%**	**$222**	**15%**	**$220**	**16%**	**$188**	**13%**	**$(33)**	**-15%**

* Estimate based on nine months actual and three months estimate
** Columns may not foot due to rounding

OPERATING BUDGET DISCUSSION

The University Store, which includes the activities of Cal Poly Print & Copy, estimates to end FY 2015-16 approximately 5% below sales budget goals. Courseware sales declined due to a variety of factors including lower demand, increased rental and used textbook use, and dynamic pricing. Additionally, sales of general supplies have decreased due to a reduction in sales prices to compete with off-campus competition. However, Cal Poly branded gift and graduation merchandise sales are expected to be above budget as a result of increased product selection and a "Grad Pack" offered to graduating seniors during the Commencement Fair, which featured a 20% off regalia and selected Alumni merchandise.

Overall, sales for FY 2016-17 are expected to remain relatively consistent with FY 2015-16 year.

Courseware sales are projected to rebound due to additional titles, increasing used textbook trends, alternate sourcing and an expanded faculty outreach program.

Cal Poly food product sales are anticipated to increase due to a more equitable pricing structure and an increased presence at our new Cal Poly Downtown location. Cal Poly branded apparel sales at both the campus and downtown locations are also expected to increase with strengthened marketing support and a robust online store.

Minor hardware (accessories) sales are anticipated to increase from the additional display space, as well as promotional bundle offerings.

Cal Poly Downtown sales for FY 2015-16 are expected to end consistent with FY 2014-15. Cal Poly Downtown continues to focus on increasing traffic through its marketing and social media campaigns, as well as partnerships with the College of Agriculture, Food and Environmental Sciences.

Payroll expenses for consolidated operations are estimated end FY 2015-16 approximately 8% below budget, due to position vacancies in administration and loss prevention, as well as student and certain intermittent employees. Payroll expenses for FY 2016-17 are expected to increase by 5%, the result of a 3% merit pool as well as an increase in the minimum wage. In addition, the budget reflects higher fringe benefit costs for regular benefited employee.

Operating Expenses for consolidated operations in FY 2015-16 are expected to be approximately 8% below budget the result of equipment and maintenance expenditures that have been postponed. In addition, there were also favorable variances in marketing and promotional expenditures as the store is focusing primarily on digital platforms.

For FY 2016-17, Operating Expenses are projected to increase, which includes a five-month overlap in lease expenses as a result of the Cal Poly Downtown relocation. In addition, the budget includes $60,000 in consulting fees related to a review of University Store operations. The budget also projects an increase in project equipment purchases, including the replacement of point-of-sale terminal devices and laptops. There is also an increase in both hardware and software maintenance costs, due to the purchase of new cash registers and EMV pin pad devices.

STATEMENT OF RESERVES OVERVIEW

	Operating Reserve	Facilities Reserves	Investment in Operating Assets (non-cash)	Capital Outlay Reserve	Total
June 30, 2014 Reserve Balance	$363,761	$4,613,066	$3,261,218	$0	$8,238,045
FY 2014-15 Net to Reserves	759,489	2,495,523	(2,859,497)	63,110	458,625
June 30, 2015 Reserve Balance	1,123,250	7,108,589	401,721	63,110	8,696,670
FY 2015-16 Net to Reserves (estimate)	1,975,355	(1,549,253)	(48,672)	96,398	473,828
June 30, 2016 Reserve Balance (estimate)	3,098,605	5,559,336	353,049	159,508	9,170,498
FY 2016-17 Net to Reserves (budget)	92,958	239,258	38,539	(59,508)	311,247
June 30, 2017 Reserve Balance (budget)	**$3,191,563**	**$5,798,594**	**$391,588**	**$100,000**	**$9,481,745**

The University Store maintains four separate reserves for designated purposes:

Operating Reserves represents working capital held for contingencies and continuing operations. The reserve balance for June 30, 2016 (estimate) and June 30, 2017 (budget) is equal to the greater of (1) 25% of the subsequent year's budgeted payroll and operating expenses (less depreciation expense) or (2) the average month-end working capital balance over the previously completed fiscal year. This represents a change in the calculation of this reserve, whereas the previous method of calculating this reserve was limited to 25% of the subsequent year's budgeted payroll and operating expenses (less depreciation expense).

Facilities Reserves represent the University Store's accumulated earnings after all other reserve requirements have been met. These funds will be used for future construction, renovation, or replacement of University Store facilities. These funds are transferred to the Plant Fund on an annual basis.

Investment in Operating Assets for June 30, 2016 (estimate) and June 30, 2017 (budget) represents our investment in capital assets, net of accumulated depreciation and amortization, and also net of any outstanding principal balances of related debt.

Capital Outlay Reserves are held to fund, at a minimum, the subsequent year's capital outlay request.

CAPITAL OUTLAY REQUEST

Major Capital Equipment Outlay (Over $25,000)	Estimate	Years	Annual Depreciation
Minor Capital Equipment Outlay (Up To $25,000)			
MBS POS Registers	$13,223	7	$1,889
Used Truck	21,285	5	4,257
Total Minor Capital Outlay	**$34,508**		**$6,146**
Total Capital Outlay	**$34,508**		**$6,146**
Previously Approved Capital Outlay Requests (1)			
Cal Poly Downtown Store Relocation/Remodel	$125,000	7	$17,857
Total Capital Outlay Request	**$159,508**		**$24,003**

CAPITAL OUTLAY REQUEST DETAIL

MBS Point-of-Sale Cash Registers (University Store): In 2010, the University Store upgraded its point-of-sale cash registers as our system required. With over 28 cash registers in operation between the University Store, two concession trailers, Cal Poly Downtown, and Cal Poly Print & Copy, in FY 2015-16, we began a replacement program of 3-4 registers per year for equipment that can no longer be repaired.

Used Truck: The University Store will sell two 1989 Ford Rangers as repairs needed are more costly than purchasing a used vehicle. The used truck will replace these two vehicles and will have the capabilities to safely transport our two concessions trailers to athletic events on and off campus.

(1) The Capital Outlay Requests within this section were approved by the Board of Directors at their January 2016 meeting. They are repeated here for informational purposes only. No further action is required.

Cal Poly Downtown Relocation: In Summer 2016 Cal Poly Downtown will move to a new location on lower Higuera Street. This location will offer an additional 1200 square feet of retail space giving us the opportunity to showcase Cal Poly branded food, wine, apparel and gifts to the San Luis Obispo community and Cal Poly alumni and friends. With this request, Cal Poly Downtown will upgrade store fixtures and displays.

CAL POLY

CORPORATION

OPERATING BUDGET & CAPITAL OUTLAY PROPOSAL

Campus Dining

Fiscal Year 2016-17

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BUSINESS OVERVIEW

Campus Dining is a self-supporting operation, providing quality food and service to the university community since the first dining hall was established in the 1940s. As the Corporation's largest commercial service, Campus Dining employs over 1,400 staff and students each academic year, and operates anywhere from 25 to 30 different food concepts at a given time. Campus Dining serves over 3.2 million customers annually with an average of 20,000 customer transactions daily.

Campus Dining supports the mission of Cal Poly Corporation in several significant ways: by striving to provide a wide variety of fresh and delicious food options along with wellness and sustainability education to help students make smart eating choices; by supporting student financial needs through payment of athletic scholarships and $2 million annually in wages to student employees; and by generating important funding for University Services and other initiatives. In addition, Campus Dining actively partners with campus departments and organizations, such as ASI and New Student and Transition Programs, to support their activities and goals.

Revenues

The dining program operates on two distinct sources of revenue: dining plan revenue from on-campus freshman housing residents, and revenue from cash sales to the Cal Poly community. The dining plan revenue-stream increases and decreases with the freshman enrollment numbers, and represents approximately 65% of Campus Dining's revenue.

For fiscal year 2015-16, Campus Dining changed the freshman dining plan from a traditional meal credit style program combined with "Plu$ Dollars", to a declining balance, all Plu$ Dollar program. Under the new program, students can eat at any of the campus food operations using their Plu$ Dollars, without the limitation of using meal credits at certain venues only. This all declining balance meal program was developed after significant research and discussion, in response to changing student preferences and dining habits.

Facilities

Campus Dining oversees over 88,000 square feet of retail space on the Cal Poly campus, with an additional 25,000 square feet used in culinary and administrative support space. Core facilities include Vista Grande and Building 19. Vista Grande opened in 1973 and features VG Café, a dining destination geared towards freshman, and VG Restaurant, a full service sit down restaurant. Building 19 opened in 1961 and houses some of the busiest restaurants on campus including 19 Metro, The Avenue, Sandwich Factory and Lucy's Juice. Building 19 also includes a warehouse for Campus Dining along with a bake shop, butcher shop, and salad production unit. These units provide product for dining locations across campus. Campus Dining has additional venues at other locations across campus, including Poly Canyon Village, the University Union, Kennedy Library, the Dexter Building, and Campus Market. At the end of the 2015-16 fiscal year, Vista Grande is being demolished, and construction will begin on a new 30,000 square foot facility.

2015-16 ACCOMPLISHMENTS

- Partnered with University Housing, ASI and Facilities to implement a Zero Waste Pilot Program in order to comply with the 2014 CSU Sustainability Policy and goal of diverting 80% of the trash previously sent to the landfill to be recycled or composted by 2020. As a part of this program, Campus Dining placed five Zero Waste Stations in restaurants in various locations across campus.
- Participated in the Gilroy Garlic Festival, placing third and earning a $1,000 prize that was donated to support student scholarships.
- Began the development of a strategic vision and plan for Campus Dining that aligns with university and Corporation values and priorities. Development included a SWOT (strengths, weaknesses, opportunities, threats) analysis, using input from a base of culinary support and management.
- Identified a software solution (Tableau) for data storage that will enable reporting gathered from multiple data sources, including Micros, CS Gold, Kronos and OneSolution. This solution is expected to reduce the time required to prepare reports that will enable management to analyze sales and staffing on a daily basis.
- Solicited feedback from the Cal Poly community, including the Student Dining Committee and the Campus Dining Advisory Committee, to help us identify changes that allow us to better serve our customers, including menu offerings, product availability, and queuing system changes.
- Doubled the number of Wellness Events hosted at Campus Dining venues, with attendance at approximately 300 students, staff and faculty, representing a 25% increase over last year. Presentations by Campus Dining's Registered Dietician on topics such as sports nutrition, healthy eating on campus and dietary restrictions have also seen about increased attendance.

2016-17 GOALS & OBJECTIVES

- Implement the use of Tableau software and reporting to provide relevant data and financial statements to support the ability of operations and location managers to make prudent and timely business decisions.
- Develop a sustainable program for staff training and professional development, with a focus on job and safety training, as well as job development and career growth.
- Begin developing menus for the new “Vista Grande” food venues, including instituting forums to receive input and feedback from students.
- Collaborate with Student Affairs on programming opportunities in support of the campus population. With the existence of a large residential campus, determine service needs for holiday and break periods.
- Utilize New Student and Transition programs (WOW, Open House, SOAR) to acquaint new and prospective students with dining resources such as the Wellness Office along with dining plan, restaurants and markets, and Campus Express.
- Research ways to enhance Campus Dining's technology usage in order to improve services and the customer experience on campus and stay in tune with student trends and lifestyles.
- Build increased awareness around Campus Dining's sustainability efforts and practices and its partnerships with the university to reach CSU sustainability goals. Also, in partnership with the Real Food Challenge team, complete the analysis of its product sourcing to establish a baseline percentage of sustainably sourced products
- Continue the development of the Campus Dining strategic vision and plan. Expand the process of development by gathering input from a broad base of constituents, including students, staff, and management.

2016-17 OPERATING BUDGET PROPOSAL

(in thousands) **	Fiscal Year 2014-15 Actual	% of Sales	Fiscal Year 2015-16 Budget	% of Sales	Fiscal Year 2015-16 Estimate*	% of Sales	Fiscal Year 2016-17 Budget Proposal	% of Sales	2016-17 Budget v. Estimate Variance	% Variance
Sales	$29,299	100%	$29,780	100%	$30,891	100%	$30,700	100%	$(191)	-1%
Cost of Goods Sold	9,793	33%	10,556	35%	11,203	36%	10,971	36%	232	2%
Gross Margin	**19,506**	**67%**	**19,224**	**65%**	**19,688**	**64%**	**19,729**	**64%**	**41**	**0%**
Other Revenues	676	2%	517	2%	527	2%	567	2%	40	8%
Income Before Operations	**20,183**	**69%**	**19,742**	**66%**	**20,215**	**65%**	**20,296**	**66%**	**82**	**0%**
Salaries & Wages	7,547	26%	7,880	26%	7,644	25%	7,873	26%	(229)	-3%
Benefits	2,462	8%	2,536	9%	2,470	8%	2,814	9%	(344)	-14%
Total Payroll Expense	**10,009**	**34%**	**10,416**	**35%**	**10,114**	**33%**	**10,687**	**35%**	**(573)**	**-6%**
Depreciation & Amortization	633	2%	688	2%	656	2%	771	3%	(115)	-18%
Software / Hardware Maintenance	100	0%	128	0%	125	0%	141	0%	(16)	-13%
General Maintenance	430	1%	407	1%	349	1%	314	1%	34	10%
Utilities	669	2%	784	3%	750	2%	620	2%	130	17%
Supplies & Equipment	653	2%	753	3%	708	2%	745	2%	(37)	-5%
Rent / Lease Expense	419	1%	373	1%	381	1%	394	1%	(13)	-3%
Management Contract Labor	-	0%	-	0%	-	0%	250	1%	(250)	-100%
CPC Administrative Assessment	805	3%	820	3%	820	3%	886	3%	(66)	-8%
CPC Allocated Services	-	0%	516	2%	542	2%	542	2%	(0)	0%
Commissions & Royalties	455	2%	430	1%	550	2%	631	2%	(81)	-15%
Other Operating Expenses	1,264	4%	1,179	4%	1,107	4%	1,240	4%	(133)	-12%
Total Operating Expenses	**5,428**	**19%**	**6,078**	**20%**	**5,988**	**19%**	**6,535**	**21%**	**(546)**	**-9%**
Total Expenses	**15,437**	**53%**	**16,495**	**55%**	**16,102**	**52%**	**17,222**	**56%**	**(1,119)**	**-7%**
Net from Operations	**4,745**	**16%**	**3,247**	**11%**	**4,113**	**13%**	**3,075**	**10%**	**(1,038)**	**-25%**
Other Income (Expense)	222	1%	255	1%	243	1%	(266)	-1%	(509)	-209%
University Services	(562)	-2%	(537)	-2%	(537)	-2%	(623)	-2%	(86)	-16%
Total Other Income (Expense)	**(340)**	**-1%**	**(282)**	**-1%**	**(294)**	**-1%**	**(889)**	**-3%**	**(594)**	**-202%**
Transfers In (Out)	**(504)**	**-2%**	**(455)**	**-2%**	**(455)**	**-1%**	**(315)**	**-1%**	**140**	**31%**
Transfer to Plant Fund Reserves	**(947)**	**-3%**	**-**	**0%**	**-**	**0%**	**-**	**0%**	**-**	**0%**
Change in Net Position	**$2,954**	**10%**	**$2,509**	**8%**	**$3,363**	**11%**	**$1,871**	**6%**	**$(1,492)**	**-44%**

* Estimate based on nine months actual and three months estimate
** Columns may not foot due to rounding

OPERATING BUDGET DISCUSSION

Campus Dining anticipates a favorable variance of approximately 4% in **Sales** for FY 2015-16 as compared to its budget. The favorable variance is primarily due to the increase in freshman enrollment over budget. The FY 2016-17 budget is based on an estimated enrollment of 4,500 freshmen with a 6.5% increase in dining plan prices. Revenue for FY 2016-17 is budgeted to remain relatively consistent with the FY 2015-16 sales projections.

Current year **Cost of Goods Sold (COGS)** is projected to exceed the FY 2015-16 budget by $414,000 consistent with the increase in sales. As a percentage of sales, COGS is slightly over budget and greater than prior year primarily due to the change in the meal plan program. With a total declining balance plan, there are no longer "missed meals." Under the traditional meal plan, "missed meals" are the meal credits students lost if they did not use their full weekly meal allowance. Missed meals have no associated food cost. Under a total declining system, there are no meals to miss or lose. In FY 2016-17, COGS as a percentage of sales is projected to remain constant.

Payroll Expense for FY 2015-16 is estimated to be lower than budget as a percentage of sales. This is a result of the increase in income, but no notable increase in associated labor expenses, coupled with unanticipated vacancies. During FY 2015-16, a Director of Business and Concept Development position was created in response to the significant facilities projects underway and to oversee the development of restaurant concepts at all dining locations. In addition, a new Assistant Supervisor position was added in Catering Services to fill the need created by the promotion of the Catering Manager to Operations Manager for eleven locations. Labor expenses for FY 2016-17 are budgeted higher than FY 2015-16 due to mandated minimum wage increases in January 2017, the creation of an Assistant Catering Manager position, and an additional baker. In addition, Payroll Expense projections reflect a 3% merit pool and higher fringe benefit costs for regular benefited employees.

Operating Expenses for FY 2015-16 are estimated to be slightly lower than budget as a result of small savings in multiple expense categories, including supply and equipment purchases. Operating expenses are anticipated to increase in FY 2016-17 as a result of multiple factors. One reason includes increased royalty expenses at Subway and Yogurt Creations as a result of increased sales. Additionally, upgrades are being made in several locations to manage the additional traffic resulting from the closure of VG Café and Restaurant. As a result, Campus Dining expects increases in supply and equipment expenditures as well as depreciation expense on capital outlays. Many safety-related expenses are also anticipated for the vehicle fleet.

FY 2016-17 operating expenses also include $250,000 to allow for the possibility of contract management services, as Corporation management continues to look for ways to improve overall dining operations.

Other Expense for FY 2015-16 primarily represents income generated in relation to the Corporation's exclusivity agreement with Coke. Although shown as income to Campus Dining, these funds are transferred to the Campus Programs fund in support of athletics. Other Expense for FY 2016-17 includes demolition costs for Vista Grande and the retirement of certain fixed assets at that location.

Net from Operations for FY 2015-16 reflects a positive variance from the FY 2015-16 budget in the amount of $866,000, primarily from the noted increase in sales. The reduction in Net from Operations in the FY 2016-17 budget is primarily a result of the noted increase in total Payroll and Operating expenses.

STATEMENT OF RESERVES OVERVIEW

	Operating Reserve	Capital Outlay Reserve	Facilities Reserves	Investment in Operating Assets (non-cash)	Total
June 30, 2014 Reserve Balance	$1,329,833	$1,121,707	$22,723,120	$2,552,740	$27,727,400
FY 2014-15 Net to Reserves	1,304,500	(295,938)	947,175	1,945,789	3,901,526
June 30, 2015 Reserve Balance	2,634,333	825,769	23,670,295	4,498,529	31,628,926
FY 2015-16 Net to Reserves (estimate)	1,478,210	(319,434)	2,016,281	188,014	3,363,071
June 30, 2016 Reserve Balance (estimate)	4,112,543	506,335	25,686,576	4,686,543	34,991,997
FY 2016-17 Net to Reserves (budget)	123,376	93,665	(731,393)	2,385,500	1,871,148
June 30, 2017 Reserve Balance (budget)	**$4,235,919**	**$600,000**	**$24,955,183**	**$7,072,043**	**$36,863,145**

Campus Dining currently maintains four reserves for designated purposes:

Operating Reserves represent working capital held for operating contingencies and continuing operations. The reserve balance for June 30, 2016 (estimate) and June 30, 2017 (budget) is equal to three months of the subsequent year's budgeted payroll and operating expenses (less depreciation expense).

Capital Outlay Reserves are held, at a minimum, to fund the subsequent year’s capital outlay request.

Facilities Reserves represent Campus Dining’s accumulated earnings after all other reserves are funded. In addition, facilities reserves at June 30, 2017 include financing received for the Culinary Support Center. Facilities reserves will be used towards the replacement of Vista Grande (Building 112) and the construction of Culinary Support Center.

Investment in Operating Assets for June 30, 2016 (estimate) and June 30, 2017 (budget) represents Campus Dining's investment in capital assets, net of accumulated depreciation and amortization, and also net of any outstanding principal balances of related debt.

CAPITAL OUTLAY REQUEST

Major Capital Equipment Outlay (Over $25,000)	Estimate	Years	Annual Depreciation
Pub Project	$99,720	10	$9,972
Sandwich Factory Improvements	74,615	10	7,462
Box Truck (Warehouse)	65,000	7	9,286
Presidential China	50,000	5	10,000
Renewal & Replacement - Capital	38,000	5	7,600
Presidential Tables & Chairs	25,000	5	5,000
Total Major Capital Outlay	**$352,335**		**$49,319**
Minor Capital Equipment Outlay (Up To $25,000)			
Mobile POS Stations & Routers (Food Trucks)	$18,300	4	$4,575
Pizza Delivery Vehicle (Ciao)	18,000	5	3,600
Online Ordering System (Multiple Locations)	15,000	5	3,000
Duke Prep Tables (Sandwich Factory)	14,000	5	2,800
Under-Counter Dishwasher (Campus Market)	13,500	5	2,700
Label Printer (CD Admin)	12,000	4	3,000
Hobart LXER-2 Dishwasher (Red Radish)	12,000	5	2,400
Flow Wrapper (Bake Shop)	10,000	5	2,000
Turbo Chef Oven NGO (Starbucks)	10,000	5	2,000
Hobart LXER-2 Dishwasher (Starbucks UU)	7,000	5	1,400
Serving Station Conversion (Campus Market)	6,700	5	1,340
Interior Alterations on Truck (Catering)	6,500	5	1,300
Awning Replacement (Tacos To-Go Grill)	6,000	5	1,200
Three-Door Freezer (Catering)	5,000	5	1,000
Total Minor Capital Outlay	**$154,000**		**$32,315**
Total Capital Outlay	**$506,335**		**$81,634**
Previously Approved Capital Outlay Requests (1)			
Starbucks/Food Trucks & Commissary	$500,000	7	$71,429
Total Capital Outlay Request	**$1,006,335**		**$153,063**

CAPITAL OUTLAY REQUEST DETAIL

Pub Project: This is a refresh and rebranding of the Ciao space with the addition of a beer/wine license. The project includes electrical work to support the addition of TVs in the space, an extension of the counter to provide room for the equipment needed to serve beer/wine, and some furniture and décor additions to support the focus on a Cal Poly spirit theme.

Sandwich Factory Project: This project is designed to improve the Sandwich Factory infrastructure and the visual appeal and overall customer experience. Two of the major components are to replace the aging flooring and poorly functioning cabinetry. The remaining improvements are esthetic modifications to the seating areas, including painting and artwork. Room dividers will be added to break up the space and allow for small group seating areas.

Box Truck: This is a replacement of a 16 ft. refrigerated truck that is over 24 years old and is no longer reliably operational. The replacement is part of a long-term vehicle fleet plan.

Presidential China/Tables & Chairs: This request would up to 100 place settings for use by University Catering for events sponsored by the President.

Renewal and Replacement - Capital: This represents various capital replacement needs that are anticipated to arise during the course of the fiscal year, but which cannot be specifically identified at the time the budgets are prepared.

(1) The Capital Outlay Request below was approved by the Board of Directors at their April 2016 meeting. It is repeated here for informational purposes only. No further action is required.

Starbucks/Food Trucks & Commissary: Includes purchase of trucks, supplies, Starbucks Commissary for storage of products and supplies.