

CAL POLY

CORPORATION

OPERATING BUDGET & CAPITAL OUTLAY PROPOSAL

Campus Dining

Fiscal Year 2018-19

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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 more than 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. During fiscal year 2016-17, the Corporation entered into a three-year contract with Chartwells Higher Education Dining Services to provide an on-site management team to lead existing campus food operations.

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 the \$2 million-plus paid 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 Student Affairs, Associated Students, Inc. 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 75% of Campus Dining's revenue in FY 2017-18.

Since the 2015-16 academic year, the freshman dining plan has been an all declining balance program where students can make purchases at any of the campus food operations. After significant research, discussion, and financial evaluation, two new dining plans will be introduced for the 2018-19 academic year. These additional plans include a mix of meal credits and declining balance. This is in response to the many students and parents who requested options for dining plans that include a range of pricing. In addition, three plans are being offered to continuing student residents—one all declining balance plan, and two plans with a mix of meal credits and declining balance.

Facilities

Campus Dining operates over 88,000 square feet of space on the Cal Poly campus, with an additional 25,000 square feet used in culinary and administrative support space. The core facility, Building 19, opened in 1961 and houses some of the busiest restaurants on campus including 805 Kitchen, 805 Cafe, The Avenue, Poly Deli, and Lucy's Juice. Building 19 also includes a warehouse for Campus Dining along with a bake shop and commissary production unit, which provide products 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, and will be opening a convenience market/food service space in the new Yak?ityutyu complex in fall of 2018.

During the 2016-17 fiscal year, the 43-year old Vista Grande complex was demolished. Construction of a new state-of-the-art facility is under way, and is scheduled for completion before the start of the 2019-20 academic year. The new Vista Grande building will be approximately 35,000 gross square feet, including 7,000 square feet for offices, conference rooms, and common space.

2017-18 HIGHLIGHTS & ACCOMPLISHMENTS

- Poly Deli (formerly Sandwich Factory) –A remodel was completed, providing an updated look, and increased through-put, with the addition of an express line with ready-made sandwiches. The cashiering area was moved to create an expanded seating area.
- 805 Café (formerly 19 Metro Express) –A custom Sambazon-branded kiosk was installed, allowing for greater storage and serving capabilities.
- 805 Kitchen (formerly 19 Metro) –The cashiering and service areas were remodeled to allow for a more efficient service flow. Many aesthetic changes were also made, including updated counters, seating, flooring, beverage and salad bar service areas, and wall graphics, creating a more inviting atmosphere for customers.
- The Avenue –Remodeling of Tu Taco (formerly Pico’s), Student Choice (formerly Zen Bowl) and Chick-fil-A provided greater service capability and updated seating, décor and branding.
- Canyon Café (formerly Tacos to Go Grill) –A full concept change to a diner-style location extended the menu choices for customers in the Poly Canyon Village area.
- Starbucks self-serve kiosks were installed in The Avenue and 805 Café to help relieve congestion at the two very popular storefront locations.
- A new supply chain management program was implemented, which includes food procurement, logistics, and tracking of food purchase sustainability.
- ACE sushi offerings were expanded to The Avenue, Julian’s, and Village Market.
- Voluntary meal plan (Gold Plate) sales increased by 47%.
- Cash handling policies and procedures were revised, and asset protection training was implemented.
- Warehouse operations were restructured and inventory optimization was streamlined.
- Campus Dining staff participated in a cross-functional committee to select a vendor for a mobile food ordering, payment and delivery platform. Vendor selection is completed with contract negotiations underway. Implementation is planned for Fall 2018.
- An evaluation of the freshmen dining plans resulted in the addition of two new plans, consisting of both declining balance and meals credits, starting in the 2018-19 academic year.
- Optional dining plans for continuing and transfer students residing in on-campus housing have been created for the 2018-19 academic year.
- Campus Dining was a recipient of the California Higher Education Sustainability Conference Best Practice Award for Sustainable Food Systems.

- Campus Dining was a recipient of the Loyal E Horton Dining Awards from The National Association of College & University Food Services (NACUFS), celebrating exemplary campus dining services throughout the United States and Canada. This included the Gold Medal 1st National Prize in the Catering Online Menu category and the Silver Medal 2nd National Prize in the Catering Special Event category.

2018-19 GOALS & OBJECTIVES

- Renovate Starbucks UU to enable increased volume and comply with Starbucks licensing requirements.
- Complete and open the Grande Avenue Market (a convenience store and fresh market), adjacent to the new Yak?ityutyu housing complex.
- Relocate Village Market at Poly Canyon Village to the former Einstein's space to enable enhanced product selection.
- Work with university housing to expand the capabilities of offering dining plans and managing billing through their Star Res program.
- Develop a project plan and timeline for a successful and smooth opening of Vista Grande. The plan will include menu development, service models, staffing and other elements.
- Update catering equipment and service-ware to improve quality of service.
- Implement a mobile food ordering platform.
- Working with Corporation administration, develop metrics and key performance indicators for staff, managers and executive management. Add these as timely and relevant measures in reviews and discussions.

2018-19 OPERATING BUDGET PROPOSAL

(in thousands) **	Fiscal Year 2016-17 Actual	% of Sales	Fiscal Year 2017-18 Budget	% of Sales	Fiscal Year 2017-18 Estimate*	% of Sales	Fiscal Year 2018-19 Budget Proposal	% of Sales	2018-19 Budget v. Estimate Variance	Favorable (Unfavorable) % Variance
Sales	\$31,072	100%	\$33,142	100%	\$34,298	100%	\$32,829	100%	\$(1,469)	(4%)
Cost of Goods Sold	11,514	37%	11,373	34%	12,572	37%	11,506	35%	1,065	8%
Gross Margin	19,558	63%	21,769	66%	21,727	63%	21,323	65%	(404)	(2%)
Other Revenues	632	2%	611	2%	821	2%	658	2%	(163)	(20%)
Income Before Operations	20,190	65%	22,380	68%	22,548	66%	21,981	67%	(567)	(3%)
Salaries & Wages	8,097	26%	8,204	25%	8,134	24%	8,166	25%	(33)	0%
Benefits	2,750	9%	2,828	9%	2,800	8%	3,122	10%	(321)	(11%)
Total Payroll Expense	10,847	35%	11,031	33%	10,934	32%	11,288	34%	(354)	(3%)
Depreciation & Amortization	701	2%	920	3%	740	2%	741	2%	(1)	0%
Software / Hardware Maintenance	127	0%	147	0%	96	0%	122	0%	(26)	(28%)
General Maintenance	514	2%	483	1%	507	1%	534	2%	(26)	(5%)
Utilities	581	2%	615	2%	600	2%	612	2%	(12)	(2%)
Supplies & Equipment	577	2%	686	2%	704	2%	708	2%	(4)	(1%)
Rent / Lease Expense	375	1%	388	1%	384	1%	388	1%	(3)	(1%)
Management Contract Labor	221	1%	520	2%	520	2%	544	2%	(24)	(5%)
CPC Administrative Assessment	886	3%	1,089	3%	1,089	3%	1,162	4%	(73)	(7%)
CPC Allocated Services	580	2%	488	1%	456	1%	567	2%	(111)	(24%)
Commissions & Royalties	555	2%	553	2%	629	2%	549	2%	80	13%
Other Operating Expenses	1,201	4%	1,403	4%	1,271	4%	1,411	4%	(140)	(11%)
Total Operating Expenses	6,316	20%	7,292	22%	6,996	20%	7,338	22%	(341)	(5%)
Total Expenses	17,163	55%	18,323	55%	17,930	52%	18,626	57%	(695)	(4%)
Net from Operations	3,027	10%	4,057	12%	4,617	13%	3,355	10%	(1,262)	(27%)
Other Income (Expense)	(683)	(2%)	240	1%	242	1%	240	1%	(2)	(1%)
University Services	(623)	(2%)	(670)	(2%)	(670)	(2%)	(670)	(2%)	-	0%
Interest Expense	-	0%	(1,286)	(4%)	-	0%	-	0%	-	0%
Total Other Income (Expense)	(1,306)	(4%)	(1,716)	(5%)	(428)	(1%)	(430)	(1%)	(2)	0%
Transfers In (Out)	2,031	7%	(315)	(1%)	(315)	(1%)	(315)	(1%)	-	0%
Net to Reserves	\$3,752	12%	\$2,026	6%	\$3,874	11%	\$2,610	8%	\$(1,264)	(33%)
Noncash transactions (add back):										
Depreciation & Amortization	701	2%	920	3%	740	2%	741	2%	(1)	0%
Other Expense	590	2%	-	0%	-	0%	-	0%	-	0%
Adjusted Net to Reserves	\$5,042	16%	\$2,946	9%	\$4,614	13%	\$3,351	10%	\$(1,263)	(27%)

* Estimate based on nine months actual and three months estimate

** Columns may not foot due to rounding

OPERATING BUDGET DISCUSSION

Campus Dining anticipates overall sales for FY 2017-18 to be approximately \$1.16 million above budget. The favorable variance primarily relates to dining plan revenues, the result of actual freshman enrollment approximately 500 students more than the target used for the budget. Cash sales are expected to be slightly under the prior year and budget due to increased lines and wait times created by the additional freshmen. Sales for 2018-19 are budgeted to decrease 4% from FY 2017-18 projections, which is the result of a projected freshmen enrollment of 800 fewer students and the introduction of two less expensive dining plans. This will be offset by the introduction of three voluntary dining plans for continuing and transfer students living on campus.

Current year **Cost of Goods Sold (COGS)** is projected to be above the FY 2017-18 budget by approximately \$1.2 million, which is consistent with the change in sales over the same period. As a percentage of sales, COGS is approximately 3% higher than the budget. The increase in food costs percentage is partially reflective of student behavior, which continues to show an increase in sales transactions at the markets and other locations that bear a significantly higher food cost percentage than other dining locations. Food costs percentage is budgeted to decrease by approximately 2%, which reflects the introduction of the two new dining plans. These plans contain meal credits, which are expected to increase traffic at locations with a lower food cost percentage.

Payroll Expense for FY 2017-18 is estimated to be slightly under budget, primary due to favorable variances in student labor and vacancies in full-time positions. Payroll expense for FY 2018-19 reflects a 4% compensation pool for full-time employees, with an additional 1% in January 2019 for employees at lower earnings to address compression from minimum wage increases. It also reflects an increase in the minimum wage for student and part-time employees in January 2019, and fringe benefit rates consistent with FY 2017-18. Management will continue focusing on optimizing productivity.

Operating Expenses for FY 2017-18 are anticipated to be approximately 4% under budget as a result of savings in multiple expense categories, including depreciation, consultants, supplies, marketing, and CPC allocated services. FY 2018-19 operating expenses as a percentage of sales are budgeted to increase 2%, primarily due to increases in Corporation administrative assessments and university indirect cost recovery charges.

Other Income/Expense for FY 2017-18 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.

Net to Reserves for FY 2017-18 reflects a positive variance from the budget of \$1.9 million. The majority of this favorable variance to budget relates to interest expense that was budgeted for CSU System-wide Revenue Bonds (SRBs) for the new Vista Grande Building. The CSU Chancellor's Office has issued Commercial Paper Notes as an interim source of financing until its next issuance of SRBs. Debt service payments are not required until November of 2020. The decrease in net from operations in the FY 2018-19 budget is the net impact of the changes and expenses previously noted.

STATEMENT OF RESERVES OVERVIEW

	Operating Reserve	Capital Outlay Reserve	Facilities Reserves	Debt Service Reserve	Investment in Operating Assets (non-cash)	Total
June 30, 2016 Reserve Balance	\$4,112,750	\$506,335	\$26,268,051	-	\$4,650,488	\$35,537,624
FY 2016-17 Change in Reserves	238,033	1,474,665	(2,345,707)	1,443,729	595,373	1,406,093
June 30, 2017 Reserve Balance	4,350,783	1,981,000	23,922,344	1,443,729	5,245,861	36,943,717
FY 2017-18 Change in Reserves (estimate)	120,342	(1,656,000)	4,487,238	160,452	762,288	3,874,320
June 30, 2018 Reserve Balance (estimate)	4,471,125	325,000	28,409,582	1,604,181	6,008,149	40,818,037
FY 2018-19 Change in Reserves (budget)	134,134	675,000	(9,670,637)	562,704	10,908,675	2,609,876
June 30, 2019 Reserve Balance (budget)	\$4,605,259	\$1,000,000	\$18,738,944	\$2,166,885	\$16,916,824	\$43,427,912

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, 2018 (estimate) and June 30, 2019 (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. Facilities reserves will be used towards the construction of the new Vista Grande (Building 112) as well as future facility projects involving Building 19.

Debt Service Reserves represent 115% of the subsequent year's debt service, including both principle and interest.

Investment in Operating Assets for June 30, 2018 (estimate) and June 30, 2019 (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
Mustang Station Patio	\$125,000	30	\$4,167
Renewal & Replacement - Capital	54,000	5	10,800
State Fire Marshall Corrections	34,000	10	3,400
GEM eL XD Electric Vehicles (2)	28,800	5	5,760
Walk-In Freezer Repairs	25,000	5	5,000
Total Major Capital Outlay	\$266,800		\$29,127
Minor Capital Equipment Outlay (Up To \$25,000)			
Water Supply/Sewer Hookup - Starbucks Truck	\$15,000	10	\$1,500
Tri-Channel Cold Unit - Poly Deli	13,000	5	2,600
Roof Maintenance - Building 19	10,700	5	2,140
Dishwasher - Bake Shop	8,000	5	1,600
Three-Compartment Sink - Bake Shop	6,000	5	1,200
Micros Register - Mustang Station	5,500	5	1,100
Total Minor Capital Outlay	\$58,200		\$10,140
Total Capital Outlay	\$325,000		\$39,267
Previously Approved Capital Outlay Requests (1)			
Starbucks Refresh (University Union)	\$675,000	30	\$22,500
PCV - Village Market Relocation	400,000	30	13,333
Yak?ityuityu Campus Dining Space	1,225,000	30	40,833
Campus Market LED Lighting Retrofit	25,000	10	2,500
Building 19/University Union Neighborhood	1,800,000	30	60,000
Total Capital Outlay Request	\$4,450,000		\$178,433

CAPITAL OUTLAY REQUEST DETAIL

Mustang Station Patio: Enhanced patio seating directly adjacent to Mustang Station, including new finishes, additional lighting, and heating elements.

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

State Fire Marshall Corrections: Repairs and modifications to meet State Fire Marshall requirements including replacement of fire doors, repair of firewalls and hood sealing in the Bake Shop.

GEM eL XD Electric Vehicles: Two electric vehicles to be used by athletic concessions, catering and the maintenance department.

Walk-In Freezer Repairs: This includes operational and safety repairs to the main warehouse walk-in freezer.

(1) The Capital Outlay Requests below were approved by the Board of Directors at their January 2018 meeting. They are repeated here for informational purposes only. No further action is required.

Starbucks Refresh: The Corporation's license agreement with Starbucks for the University Union location comes to term in September 2018. As a part of its renewal process, Starbucks requires a refurbishment investment in the operation, which brings the space to current Starbucks standards, specifications and design criteria.

Poly Canyon Village Market Relocation: The lease between the Corporation and University Housing for Campus Dining retail space in Poly Canyon Village (PCV) expires August 1, 2018. The plan is to vacate the existing Village Market space, and to relocate and expand the Village Market into the space currently occupied by Einstein Bros. Bagels.

Yak?ityuityu Campus Dining Space: As part of the construction of the Yak?ityuityu student housing facility, the Corporation has been allotted approximately 1,900 square feet of space to design, develop, and construct a Campus Dining retail space. The space will be a combination convenience market and food service space.

Campus Market LED Lighting Retrofit: Upgrades to interior lighting at the Campus Market with modern, energy efficient LED lighting. Included in the project are the (10) low bay fixtures that makeup the primary lighting system for the market as well as (26) recessed lights and track lighting throughout the market.

Building 19/University Union Neighborhood: Programming for the University Union "Neighborhood Master-Plan" and design development for the renovation of Building 19.

CAL POLY

CORPORATION

OPERATING BUDGET & CAPITAL OUTLAY PROPOSAL

Sponsored Programs Administration

Fiscal Year 2018-19

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BUSINESS OVERVIEW

Sponsored Programs, in accordance with the Integrated CSU Administrative Manual (ICSUAM) section 11000, 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.

2017-18 ACCOMPLISHMENTS

- Streamlined electronic processes were implemented utilizing the capabilities provided through the financial management database program (ONESolution), including enhancements to reporting tools that better support department customers.
- The department participated in the preparation, development, and submission of the annual composite fringe benefit rate and proposal to the Department of Health and Human Services.
- Several external sponsor audits were completed, as well as the A-133 single audit, export license reviews, and property reviews.
- The department hired, and is currently training, two new college grants analyst positions, which will provide more direct pre- and post-award support to faculty and staff at the project level. These positions are physically located in the colleges to encourage more direct interaction and involvement in project-level support. Their training and primary reporting line is through the director of Grants Development and Sponsored Programs.
- Working with the dean of research and other campus stakeholders, Sponsored Programs submitted a request for a multi-year extension prior to submitting a new Facilities and Administrative rate proposal.
- The department brought in Huron Consulting to provide information on, and assistance with, the creation of a process to initiate service center fees, which would allow the creation of auditable service rates that can be compliantly charged to publicly-funded sponsored project agreements.
- The department has been working closely with the vice president for research and economic development and personnel in the Grants Development Office on the creation and implementation of export control review processes.
- Increased communication and streamlining activities between the Grants Development and Sponsored Programs offices have been initiated.

2018-19 GOALS & OBJECTIVES

- Policies and procedures affected by the implementation of two CFR 200, Uniform Guidance, will continue to be reviewed and updated as needed to ensure consistencies with federal clarifications and industry best practices.
- The department will complete the hiring and training process to backfill two vacant positions. The department will also participate in the hiring and training for a third individual to be placed in a new college grants analyst position, which will provide more directed pre- and post-award support to faculty and staff at the project level.
- The department will continue to 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.
- New approaches to enhance customer support to our clients will be developed and applied, including increased in-person support and outreach.
- Streamlined electronic processes will continue to be implemented, utilizing the capabilities provided through the financial management database program (ONESolution) including enhancements to reporting tools that better support customers.
- Process improvements identified in the Office of Research and Economic Development's organizational review of research administration will continue to be implemented.
- Evaluation of physical office space use is ongoing, and may include relocation to a campus space that will allow Sponsored Programs, Grants Development, and the Office of Research and Economic Development central staff to co-locate in the same building.

2018-19 OPERATING BUDGET PROPOSAL

(in thousands) **	Fiscal Year 2016-17 Actual	Fiscal Year 2017-18 Budget	Fiscal Year 2017-18 Estimate*	Fiscal Year 2018-19 Budget Proposal	2018-19 Budget v. Estimate Variance	Favorable (Unfavorable) % Variance
Contract & Grant IDC Income	3,781	3,520	3,724	3,650	(74)	(2%)
Contract & Grant Admin Fees	14	11	4	4	-	0%
Center & Institute Admin Fees	170	163	174	174	-	0%
Other Revenues	208	213	158	158	(0)	0%
Income Before Operations	4,172	3,907	4,060	3,986	(75)	(2%)
Salaries & Wages	584	645	606	738	(132)	(22%)
Benefits	360	385	368	447	(79)	(21%)
Total Payroll Expense	944	1,029	974	1,185	(211)	(22%)
Audit & Tax	11	11	11	12	(0)	(2%)
CPC Administrative Assessment	678	712	712	734	(23)	(3%)
Other Operating Expenses	224	347	319	427	(108)	(34%)
Total Operating Expenses	913	1,070	1,042	1,173	(131)	(13%)
Total Expenses	1,857	2,099	2,016	2,358	(342)	(17%)
Net from Operations	2,314	1,808	2,045	1,628	(417)	(20%)
Other Income (Expense)	(37)	-	(7)	(1)	6	88%
Total Other Income (Expense)	(37)	-	(7)	(1)	6	88%
Transfers In (Out)	(2,154)	(1,788)	(2,135)	(1,527)	608	28%
Net to Reserves	\$124	\$20	\$(97)	\$100	\$197	203%

* 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 2017-18 is expected to exceed budget projections by approximately 4%, primarily due to income activity from a single project that was closed this year. Without this large single transaction, revenue projections would be lower than budgeted by approximately \$143,000, due to a decrease in expenditures and related income activity. Projections for FY 2018-19 contract and grant income are expected to remain flat, due to changes in availability of federal grant funding that were initially seen last year and continue to create funding uncertainty. Other revenues in FY 2018-19 are budgeted to remain flat or increase only slightly from the current year, also due to uncertainty regarding changes in availability of funds.

Total **Payroll Expense** for the current year reflects a decrease from the budget due to unexpected position vacancies. Payroll expense for FY 2018-19 reflects a 4% compensation pool for full-time employees, with an additional 1% in January 2019 for employees at lower earnings to address compression from minimum wage increases. It also reflects an increase in the minimum wage for student and part-time employees in January 2019, and fringe benefit rates consistent with FY 2017-18. Payroll expense for FY 2018-19 also reflects an expectation of filling vacant positions.

Total **Operating Expenses** for the current year are anticipated to be 3% below budget, which is primarily the result of savings in travel-related expenditures and consulting expenses. FY 2018-19 Operating Expenses are expected to increase 13%, primarily due to an \$82,000 increase in the university cost allocation, as well as a 3% increase in the Corporation administrative assessment. The total university cost allocation is provided by the university along with data used to determine each department's individual portion.

Transfers Out includes funds allocated by the Dean of Research for expenditure by various university departments involved in campus research programs. Transfers out is expected to decrease by approximately \$608,000 as a result of flat or little growth in expected income, combined with the increases in expenses.

Net to Reserves are residual funds allocated to the Operating Reserve, Contract and Grant Audit Reserve, and Capital Outlay Reserve, as needed.

STATEMENT OF RESERVES OVERVIEW

	Operating Reserve	Contract & Grant Audit Reserve	Investment in Operating Assets (non-cash)	Total
June 30, 2016 Reserve Balance	\$421,163	\$267,584	\$20,628	\$709,375
FY 2016-17 Change in Reserves	43,906	79,901	96	123,903
June 30, 2017 Reserve Balance	465,069	347,485	20,724	833,278
FY 2017-18 Change in Reserves (estimated)	52,963	(144,986)	(4,974)	(96,997)
June 30, 2018 Reserve Balance (estimate)	518,032	202,499	15,750	736,281
FY 2018-19 Change in Reserves (budget)	15,541	89,344	(4,974)	99,911
June 30, 2019 Reserve Balance (budget)	\$533,573	\$291,842	\$10,776	\$836,191

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.

During FY 2017-18, a project closed in a deficit position of approximately \$167,000. Funds from the Contract & Grant Audit Reserve were transferred to cover the deficit and close the project. It was agreed this reserve would be replenished to full capacity over a two year period.

Investment in Operating Assets for June 30, 2018 (estimate) and June 30, 2019 (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 REQUEST

There are no capital outlays requested for FY 2018-19.

CAL POLY

CORPORATION

OPERATING BUDGET & CAPITAL OUTLAY PROPOSAL

General Administration

Fiscal Year 2018-19

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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 vital commercial services, research support, administrative services, and funding resources, while serving the campus community in effective and innovative ways. 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 - The Corporation's Executive Office is responsible for setting strategic direction and priorities for the organization, ensuring alignment with university priorities and direction, board and organizational administration and compliance, business and policy development, legal affairs, direct contract management and administration, 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 240 full-time employees and more than 2,000 part-time student employees. HR also manages employee relations for all Corporation 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 is responsible for managing the financial resources of the Corporation consistent with its strategic direction and priorities. It oversees financial planning and forecasting, as well as financial reporting to higher management. The Business and Finance Office manages fiscal services for internal departments and external organizations, providing centralized business and financial analysis, accounting, record-keeping, and financial reporting for Corporation units, and maintains an integrated, online financial reporting system. Departments within the Business and Finance Office include Payroll, Accounts Receivable, Travel, Accounts Payable, General Accounting, Campus Programs, Income and Gift Management, Cashiering, and Financial Services.

Marketing and Communications (MARCOM) - The MARCOM department provides marketing and communication services to the Corporation's administrative and commercial operations as well as to other campus units and organizations. MARCOM is responsible for internal and external

communications, including media point of contact and press releases. MARCOM's goal is to use creatively developed integrated marketing solutions that enable and support the Corporation and other customer units to achieve and then exceed their business objectives. Services provided by MARCOM include strategic planning support, 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 full range 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. 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, 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.

2017-18 ACCOMPLISHMENTS

- Strategic planning efforts were continued to align the Corporation's mission, strategic goals, and long-term vision with the mission of the university.
- Operation of the University Store and Cal Poly Downtown was successfully transitioned to Follett Higher Education Group. This included integration of Follett ConnectOnce and Discover with campus systems.
- The California State University (CSU) Board of Trustees approved the financing of the construction of the new Vista Grande dining facility through CSU System-wide revenue bonds.
- A strategy was developed 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.
- Electronic workflow features of the accounting system, ONESolution, were implemented to automate the approval process for journal entries.
- DocuSign technology was implemented to streamline processes, expedite processing, and enhance customer service.
- A variety of trainings were offered to employees, including but not limited to, Active Shooter Preparedness, Workplace Violence, Performance Management, Interviewing Skills, Substance Abuse, Safety, and Supervisory Skills.
- A Hazardous Energy Control Program for Campus Dining was developed in collaboration with Cal Poly Environmental Health & Safety.
- A CalPERS audit and a CSU audit on hazardous communication were conducted with no findings.
- A new Cal Poly Corporation website was internally developed and successfully launched.
- MARCOM launched dearmustang.com during SLO Days, driving awareness of the Corporation and its commercial services.
- The social media impact of the Corporation grew, increasing impressions by 264%, followers by 87%, and engagement by 199% from the prior year.
- A vendor electronic payment process was implemented through US Bank. This reduces manual paper processes and provides additional revenues to the Corporation through rebates.
- A Request for Information (RFI) was distributed to vendors providing mobile food ordering platforms. A committee began the interviewing and selection process for choosing a provider.
- A business impact analysis was conducted in the event that information technology systems become unavailable due to a disaster, either natural or otherwise. Analysis and recommendations will be incorporated in to the Corporation's overall business continuity plan.

2018-19 GOALS & OBJECTIVES

- Strategic planning efforts will continue, aligning the Corporation's mission, strategic goals, and long-term vision with the mission of the university.
- GA will work with university partners to identify opportunities for business process improvements, service efficiencies, and shared expertise, including review of existing document imaging and workflow systems, and use of electronic forms and other processes.
- Work will continue with university Facilities staff, ASI and UUAB students on a joint project to enhance the Building 19/University Union neighborhood.
- Transitioning ASI timekeeping to the CPC Pay and Kronos timekeeping system will be completed.
- Recruiting outreach will expand to attract a more diverse and qualified applicant pool.
- Professional development opportunities will be identified and offered for staff and supervisory staff.
- A Mobile Food Order and Payment application will be implemented to assist Campus Dining in providing an enhanced customer experience.
- Access (anytime, anywhere) to Corporation reports by the campus community via integration with the Cal Poly portal will be improved.
- An employee self-service application will be implemented to provide enhanced service to employees and improve current HR processes.

2018-19 OPERATING BUDGET PROPOSAL

(in thousands) **	Fiscal Year 2016-17 Actual	Fiscal Year 2017-18 Budget	Fiscal Year 2017-18 Estimate*	Fiscal Year 2018-19 Budget Proposal	2018-19 Budget v. Estimate Variance	Favorable (Unfavorable) % Variance
Assessment Income	\$2,554	\$2,953	\$2,894	\$3,066	\$173	6%
Fee for Service Income	661	700	670	719	49	7%
CPC Allocated Services	917	679	628	726	97	16%
Other Revenues	479	540	593	598	5	1%
Income Before Operations	4,612	4,872	4,785	5,110	325	7%
Salaries & Wages	2,810	2,928	2,782	2,874	(92)	(3%)
Benefits	1,589	1,649	1,552	1,677	(125)	(8%)
Total Payroll Expense	4,399	4,577	4,334	4,551	(217)	(5%)
Depreciation & Amortization	143	145	123	89	34	28%
Software / Hardware Maintenance	182	209	203	228	(24)	(12%)
General Maintenance	30	24	45	24	20	45%
Supplies & Equipment	81	70	71	82	(11)	(15%)
Rent / Lease Expense	199	210	209	208	1	0%
Audit & Tax	117	122	122	125	(3)	(2%)
Other Operating Expenses	410	465	471	792	(320)	(68%)
Total Operating Expenses	1,193	1,260	1,264	1,568	(304)	(24%)
Total Expenses	5,592	5,837	5,598	6,119	(521)	(9%)
Net from Operations	(980)	(965)	(813)	(1,009)	(196)	(24%)
Other Income (Expense)	(13)	-	(3)	(1)	2	61%
Total Other Income (Expense)	(13)	-	(3)	(1)	2	61%
Transfers In (Out)	890	919	807	975	168	21%
Net to Reserves	\$(103)	\$(46)	\$(8)	\$(35)	\$(27)	(316%)
Noncash transactions (add back):						
Depreciation & Amortization	143	145	123	89	34	28%
Other Expense	7	-	-	-	-	0%
Adjusted Net to Reserves	\$47	\$99	\$114	\$54	\$(60)	(53%)

* Estimate based on eight months actual and four 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 for marketing and communications support. Allocated service units are profit neutral and, therefore, any changes in expenses will result in a corresponding change in revenues. Expenses for marketing and communications are under budget for the current year, primarily the result of personnel vacancies. In addition, assessment income is under budget, which is the result of a slight reallocation of funds provided from the bookstore contract to support other on-going administrative needs.

Fee for Service Income is slightly under budget for the current year, the result of a decrease in web-hosting services. Other Revenues are above budget, primarily due to additional contract work provided by MARCOM to the University.

Total revenues for FY 2018-19 are expected to increase 7%, which primarily relates to an increase in assessments and allocated services charged to Corporation business units. The increase is reflective of expected increases in payroll and operating expenses as described below.

Payroll

Payroll expenses are projected to finish this year approximately 5% below budget. Unanticipated personnel vacancies in administration, IT, and MARCOM caused the favorable variance.

Payroll expense for FY 2018-19 reflects a 4% compensation pool for full-time employees, with an additional 1% in January 2019 for employees at lower earnings to address compression from minimum wage increases. It also reflects an increase in the minimum wage for student and part-time employees in January 2019, and fringe benefit rates consistent with FY 2017-18. Payroll expense for next year also reflects the addition of a project/property manager and an associate executive director. Also of note is the reclassification of the compensation of the executive director from payroll expense to other operating expenses, beginning July 1, 2018.

Operating Expenses

Total operating expenses for the current year are expected to end slightly over budget. For FY 2018-19, total operating expenses are expected to increase 24%, which is primarily driven the previously mentioned reclassification of the compensation of the executive director from payroll expense to other operating expenses, offset by decreases in amortization and contract maintenance expenses.

Net From Operations

General Administration operations are partially funded by net investment income (interest plus dividends, less fees) from the General Investment Fund. FY 2017-18 Transfers-in represent approximately \$807,000 in net investment income from the General Investment Fund and is expected to increase to \$975,000 for FY 2018-19. The change primarily reflects the FY 2017-18 personnel vacancies and the FY 2018-19 personnel additions.

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 gains have totaled \$1 million for the first 10 months of the fiscal year, resulting in overall operating income of \$2.4 million over the same period. Current year results are driven by strong returns from domestic large cap equities, low inflation and steady economic growth.

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 anticipates that approximately \$807,000 in current year dividend and interest income will be used to support General Administration operations in FY 2017-18.

Net investment income in excess of transfers to General Administration operations are kept in the following reserves:

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 is held in the Plant Fund and represents prior years’ accumulation of net earnings in excess of General Investment Fund and General Administration reserve requirements. During 2017-18, the Board of Directors approved the expenditure of \$3 million in these reserves as a contribution towards the construction of the Science and Agriculture Teaching and Research Complex.

Past and projected reserve balances are as follows:

	Investment Reserves	General Administration Reserves
June 30, 2017 Reserve Balance	\$6,718,841	\$6,509,552
FY 2017-18 Change in Reserves (estimate)*	110,175	(1,429,738)
June 30, 2018 Reserve Balance (estimate)*	6,829,016	5,079,814

(*Current year estimates are based on actual 10-month activity for the current year and estimated results for May and June of 2018. Note that market value gains (losses) are not estimated.)

STATEMENT OF RESERVES OVERVIEW

	Operating Reserve	Investment in Operating Assets (non-cash)	Capital Outlay Reserve	Total
June 30, 2016 Reserve Balance	\$1,661,400	\$430,232	\$61,732	\$2,153,364
FY 2016-17 Change in Reserves	46,038	(135,074)	(14,000)	(103,036)
June 30, 2017 Reserve Balance	1,707,438	295,158	47,732	2,050,328
FY 2017-18 Change in Reserves (estimate)	101,637	(105,469)	(4,600)	(8,432)
June 30, 2018 Reserve Balance (estimate)	1,809,075	189,689	43,132	2,041,896
FY 2018-19 Change in Reserves (budget)	49,750	(45,647)	(39,216)	(35,113)
June 30, 2019 Reserve Balance (budget)	\$1,858,825	\$144,042	\$3,916	\$2,006,783

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 is equal to 30% of the subsequent year's payroll and operating expense budget (less depreciation expense). It is anticipated that FY 2018-19 earnings will be sufficient to fully fund the reserve.

Investment in Operating Assets for June 30, 2018 (estimate) and June 30, 2019 (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)			
Network Drives	\$19,841	4	\$4,960
Microsoft SQL and Windows Server Licenses	23,291	3	7,764
Total Minor Capital Outlay	\$43,132		\$12,724
Total Capital Outlay Request	\$43,132		\$12,724

CAPITAL OUTLAY REQUEST DETAIL

Network Drives: Additional storage area network drives needed to meet backup space growth due to OneSolution database encryption and continued space needs for MARCOM.

Microsoft SQL and Windows Server Licenses: This is a renewal of the licenses and maintenance agreement for running Corporation servers and databases. It includes everything from domain controllers that control access and traffic within Corporation systems, to operating systems that ensure the servers run, to database software.

CAL POLY

CORPORATION

OPERATING BUDGET & CAPITAL OUTLAY PROPOSAL

Conference and Event Planning

Fiscal Year 2018-19

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BUSINESS OVERVIEW

Conference and Event Planning (CEP) is a self-supporting operation providing a full array of event services from initial concept to completion of an event. CEP strives to facilitate the highest standards of excellence and professionalism in performance of its services.

University-sponsored events are related to the overall educational mission of the university and are directly linked to the purposes of Cal Poly colleges and departments. Licensed events are sponsored by off-campus organizations and promote the education and learning of the participants. CEP coordinates services for both types of events at various levels, size, and duration. Some events have fewer than 50 participants and last for less than a day, whereas other events, such as Student Life Orientation Days (SLO Days), have thousands of participants and span several weeks.

CEP also provides organizational assistance to event corporate sponsors and exhibitors to ensure their compliance with university regulations and conformance to the university's mission and purpose. With authorization to issue licenses for off-campus groups to use Cal Poly facilities and services, CEP is positioned to highlight the university and community partnership, bringing additional business to the San Luis Obispo community.

Services provided to off-campus organizations and university departments include:

- Budget development
- Complete registration and reporting services*
- Coordination of on-campus housing accommodations
- Campus facility coordination and reservations
- Food and beverage service coordination
- Rental coordination
- On-site event staffing
- Liability insurance and other event-related insurance
- Payroll services*
- Bus and shuttle service coordination
- Signage
- Logistical support for event staff*

* Available only for university-sponsored events

2017-18 ACCOMPLISHMENTS

- After meetings and discussions with University Housing, a two-year financial model was implemented, which includes a multi-faceted and layered increase of housing rates for this year and next year. The agreement includes adjusted rates for new housing structures.
- Billing and invoicing procedures were evaluated and adjusted, which reduced the overall time needed to create final billing invoices and statements. A review of closing dates for invoices was conducted and this audit indicated a higher level of efficiency in billing and invoicing.
- Membership in the American Camp Association (ACA) program was evaluated. CEP is now in the process of establishing membership and integrating ACA guidelines.
- New buildings and facilities, both internal and external, were identified as potential event accommodations, thus increasing overall availability of campus facilities.
- CEP has increased the duration and capacity of externally sponsored youth camps.
 - With the Athletics Department and Associated Students, Inc., the Doerr Family Field was identified as an additional event area. Securing reservations for new athletic events at this location has already begun.
 - In conjunction with Engineering Possibilities In College (EPIC), the duration of this event to a four week experience has been expanded.
 - In conjunction with the College of Agriculture, Food and Environmental Sciences, new youth camps are in the process of being created.
- The CEP website is in the process of being revised, including new pictures, creating an exciting and engaging web presence.
- Customer survey participation by clients has increased. Responses indicate a high percentage of client satisfaction.
- Improvements were made to the online event registration site, which provide increased ease of use and a more efficient event registration process, including faster registration, payment, and check out.
- CEP continues to work with Cal Poly Facilities Management and Development and has significantly reduced waste, increased recycling, and has begun promoting a paperless business model.

2018-19 GOALS & OBJECTIVES

- CEP will create a “Policies and Procedures” binder with all departmental procedures, streamlined with easy to use table of contents and chapters, to facilitate a department wide understanding of all practices. This will include sections on complete event management, customer service and accounting.
- CEP will create a “How to Create an Event” manual for youth groups who are interested in developing and implementing a youth camp. This will foster stronger relationships with current and potential clients by promoting education of event management and highlighting the advantages and services of CEP.
- An invitation will be extended to other conference and event planning departments from other universities to visit the Cal Poly CEP. This is aimed at fostering an exchange of event planning knowledge, ideas and viewpoints. This will adopt an open spirit of cooperation and learning.
- CEP will continue to improve upon payment procedures, with an emphasis on timely collections of outstanding invoices. The processing of these payments will continue to improve, and new procedures will be established to avoid late payments by clients. This includes expanding mutually agreed upon payment options, which better suit a client’s budgetary timeline.
- Work to increase campus facility availability is ongoing and continues to be a prime objective. CEP will explore additional off campus facility options, such as other universities including Cuesta College. Expanding CEP off campus facility availability will make possible an expansion of facility offerings, ensuring a wider variety of appealing options to potential clients.
- CEP will create a portfolio, both hardcopy and online, containing a collage of pictures which illustrate the department and conveys a visual story of the department’s mission and successes.
- CEP will expand its relationship with the San Luis Obispo Chamber of Commerce. This relationship could provide a new client base of nonprofits searching for event space. Promotion through the San Luis Obispo Chamber of Commerce could help grow the utilization of CEP’s “one day” conference and events.
- CEP continues to promote Zero Waste Initiatives making efforts to expand on its mission of sustainability. CEP will partner with the university’s sustainability manager to collaborate on additional concepts and practices that reinforce this mission.

2018-19 OPERATING BUDGET PROPOSAL

(in thousands) **	Fiscal Year 2016-17 Actual	Fiscal Year 2017-18 Budget	Fiscal Year 2017-18 Estimate*	Fiscal Year 2018-19 Budget Proposal	2018-19 Budget v. Estimate Variance	Favorable (Unfavorable) % Variance
Sales	\$820	\$692	\$618	\$796	\$178	29%
Other Revenues	488	426	392	410	18	5%
Income Before Operations	1,308	1,117	1,010	1,206	196	19%
Salaries & Wages	451	476	436	469	(33)	(8%)
Benefits	223	227	194	234	(40)	(21%)
Total Payroll Expense	673	703	630	703	(73)	(12%)
Depreciation & Amortization	7	8	10	9	1	7%
Software / Hardware Maintenance	13	14	17	18	(1)	(6%)
Supplies & Equipment	16	14	7	12	(5)	(82%)
Rent / Lease Expense	-	-	1	1	-	1%
CPC Administrative Assessment	114	123	123	130	(8)	(6%)
Other Operating Expenses	270	224	207	301	(93)	(45%)
Total Operating Expenses	420	383	364	471	(106)	(29%)
Total Expenses	1,094	1,087	994	1,173	(179)	(18%)
Net from Operations	214	31	16	33	17	104%
Other Income (Expense)	10	-	(4)	-	4	100%
University Services	(19)	(26)	(26)	(28)	(2)	(8%)
Total Other Income (Expense)	(9)	(26)	(30)	(28)	2	5%
Transfer to Plant Fund Reserves	-	-	(680)	-	680	100%
Net to Reserves	\$206	\$5	\$(693)	\$5	\$698	101%
Noncash transactions (add back):						
Depreciation & Amortization	7	8	10	9	1	7%
Adjusted Net to Reserves	\$212	\$13	\$(683)	\$14	\$697	102%

* Estimate based on nine months actual and three months estimate

** Columns may not foot due to rounding

OPERATING BUDGET DISCUSSION

Revenues and expenses presented in this budget represent a summary of operations of the CEP; figures do not represent revenues and expenses of individual conferences and workshop events.

Revenues

FY 2017-18 revenues are projected to be approximately 10% less than budgeted. The unfavorable variance from budget is primarily the result of three events that were cancelled and four others that had significantly less attendance than anticipated. Effective FY 2017-18, Conference and Event Planning provides limited event services for SLO Days, which is the primary reason for the decrease in revenues from the prior year.

Overall, FY 2018-19 revenues are expected to increase 19% percent. The increase reflects the engagement of new external youth groups, such as Wonderful Scholars, and an increase in participation rates for other events, such as EPIC. CEP will also increase rates charged to clients for housing to help cover the increase in University Housing rates.

Payroll Expense

CEP provides a broad array of event services to the campus community, and the budget reflects the cost of personnel required to provide these services. The favorable variance in payroll expense during the current year is the result of a conference coordinator position that opened during the first part of the year, resulting from an unanticipated departure. Payroll expense for FY 2018-19 reflects a 4% compensation pool for full-time employees, with an additional 1% in January 2019 for employees at lower earnings to address compression from minimum wage increases. It also reflects an increase in the minimum wage for student and part-time employees in January 2019, and fringe benefit rates consistent with FY 2017-18. Payroll expense for FY 2018-19 also reflects filling the vacant conference coordinator position. To address the impact of rising compensation costs, CEP has reduced student assistant hours and will focus efforts on better training student staff, with an emphasis on efficiency.

Operating Expenses

FY 2017-18 operating expenses are projected to end the year 5% under budget. The favorable variance from budget and the decrease from prior year primarily relates to on-campus housing expenses. These billings come from the University for housing and laundry expenses.

Total operating expenses in FY 2018-19 are budgeted to increase \$106,000 over FY 2017-18 projections. The increase primarily relates to a \$96,000 increase in housing expenses, which is reflective of the new rates charged by University Housing.

Transfer to Plant Fund Reserves

Transfers of \$680,000 in FY 2017-18 represent reserves transferred to the Plant Fund and held in a facilities reserve. These reserves represent CEP's accumulated earnings after all other reserve requirements have been met. Transferring these reserves to the Plant Fund is consistent with Corporation practice for other commercial business units.

STATEMENT OF RESERVES OVERVIEW

	Operating Reserve	Investment in Operating Assets (non-cash)	Capital Outlay Reserve	Facilities Reserve	Total
June 30, 2016 Reserve Balance	\$267,470	\$5,255	\$50,000	\$468,579	\$791,304
FY 2016-17 Change in Reserves	2,764	31,696	(40,000)	211,180	205,640
June 30, 2017 Reserve Balance	270,234	36,951	10,000	679,759	996,944
FY 2017-18 Change in Reserves (estimate)	20,781	(9,903)	(10,000)	(14,306)	(13,428)
June 30, 2018 Reserve Balance (estimate)	291,015	27,048	-	665,453	983,516
FY 2018-19 Change in Reserves (budget)	8,730	(9,247)	-	5,374	4,857
June 30, 2019 Reserve Balance (budget)	\$299,745	\$17,801	-	\$670,827	\$988,373

CEP maintains four separate reserves for the following purposes:

Operating Reserves represents working capital held for contingencies and continuing operations. The reserve balance for June 30, 2018 (estimate) and June 30, 2019 (budget) is above the minimum reserve level of 25% of the subsequent year's budgeted payroll and operating expenses (less depreciation expense).

Investment in Operating Assets for June 30, 2018 (estimate) and June 30, 2019 (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.

Facilities Reserves represent CEP's accumulated earnings after all other reserve requirements have been met. These funds will be used for future capital development or organizational development opportunities.

CAPITAL OUTLAY REQUEST

There are no capital outlays requested for FY 2018-19.

CAL POLY

CORPORATION

OPERATING BUDGET & CAPITAL OUTLAY PROPOSAL

Other Commercial Activities

Fiscal Year 2018-19

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BUSINESS OVERVIEW

Cal Poly Corporation has the exclusive right and responsibility to provide a number of commercial services on campus. Commercial services provided by the Corporation include food services, conference and event planning services, print services, and other retail outlets. In addition, the Corporation has been delegated the responsibility of contracting with third party providers of commercial services to the campus community.

Budgets for food services operations and conference and event planning services are prepared separately. This budget incorporates the following other commercial activities of the Corporation:

University Store Contract (including Cal Poly Downtown) - 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.

The University Store has served the campus community since 1933. During FY 2016-17, the Corporation executed a contract with Follett Higher Education Group (Follett) to operate its campus bookstore and other retail store located in the center of downtown San Luis Obispo. Effective July 1, 2017, the agreement with Follett is a seven-year term, with three additional one-year extensions. As part of the arrangement with Follett, the Corporation receives an annual commission based on certain sales. The commission is used to pay for continuing expenses (i.e. rents, taxes, depreciation, and utilities) as well as contract management support. Residual income is used to support on-going Corporation operations and contributions to university services.

Cal Poly Print & Copy - Located in Cal Poly's Robert E. Kennedy Library, Cal Poly Print & Copy offers a variety of print solutions. Its largest source of revenue comes from the sale of course packs to Follett for resale to students. It also 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.

Other Retail Outlets - From time to time, the Corporation will enter into nominal contracts with other retail providers to sell products or services for a limited time. These vendors require little setup or infrastructure. These contracts generate income to the Corporation through revenue-sharing or rent charges in exchange for allowing these vendors to do business on campus.

2017-18 ACCOMPLISHMENTS

Transitioned University Store operations to Follett: The Corporation worked closely with Follett and the university to create a successful transition of University Store operations.

Annual marketing and promotional plan: The University Store, working with the Cal Poly Corporation Marketing and Communications Department, successfully developed a blueprint of marketing efforts, outlining goals, target groups, and events for the year.

Cal Poly Print & Copy systems: The Corporation changed the point-of-sale system from MBS to MICROS for Cal Poly Print & Copy operations. The Corporation established appropriate accounting and reporting processes to support operations.

Cal Poly Print & Copy manager: The store manager retired from Cal Poly and, following a successful recruitment, a new manager was hired. The manager comes with a breadth of experience in the print industry and knowledge of Cal Poly.

2018-19 GOALS & OBJECTIVES

Facilities renovation: The agreement with Follett includes \$575,000 for a limited physical renovation of the store, including fixtures, equipment, and structural changes. The Follett team is working closely with corporation and university management so that plans for physical changes to the store are integrated into the University Union/Building 19 neighborhood project.

Expand campus outreach and joint marketing programs: The Corporation and Follett will expand community outreach efforts, build upon existing relationships with faculty, staff, and student groups and cultivate new ones. Outreach efforts will include increased faculty education in regards to textbook adoption and affordability and re-establishment of a store advisory council.

Library renovation collaboration: The Corporation will continue to collaborate with the university on the library renovation project, gathering information and providing input on appropriate spaces and design options for dining and retail spaces, including Cal Poly Print & Copy.

Immediate Access program: Follett will work closely with the Corporation and university on the adoption of an immediate access program at Cal Poly. One of the affordable learning solutions portfolio of suggested campus actions, this program allows students access to digital course materials on the first day of classes.

Apple Alumni program: The campus store will add Cal Poly alumni to the educational discount program. This will allow alumni to use the discount when purchasing Macs and iPads at the store or from the website.

2018-19 OPERATING BUDGET PROPOSAL

OTHER COMMERCIAL ACTIVITIES (CONSOLIDATED)

(in thousands) **	Fiscal Year 2016-17 Actual	% of Sales	Fiscal Year 2017-18 Budget	% of Sales	Fiscal Year 2017-18 Estimate*	% of Sales	Fiscal Year 2018-19 Budget Proposal	% of Sales	2018-19 Budget v. Estimate Variance	Favorable (Unfavorable) % Variance
Sales	\$12,951	100%	\$346	100%	\$1,506	100%	\$422	100%	\$(1,083)	(72%)
Cost of Goods Sold	8,764	68%	46	13%	1,137	75%	73	17%	1,063	94%
Gross Margin	4,187	32%	300	87%	369	25%	349	83%	(20)	(5%)
Other Revenues	364	3%	1,944	562%	1,936	129%	1,631	386%	(305)	(16%)
Income Before Operations	4,551	35%	2,243	649%	2,305	153%	1,980	469%	(325)	(14%)
Salaries & Wages	1,620	13%	127	37%	176	12%	145	34%	31	18%
Benefits	531	4%	47	14%	52	3%	61	14%	(9)	(17%)
Total Payroll Expense	2,151	17%	173	50%	228	15%	206	49%	22	10%
Depreciation & Amortization	111	1%	81	23%	77	5%	71	17%	6	8%
Rent / Lease Expense	265	2%	218	63%	217	14%	168	40%	49	23%
CPC Administrative Assessment	607	5%	768	222%	768	51%	721	171%	48	6%
CPC Allocated Services	237	2%	8	2%	9	1%	64	15%	(55)	(602%)
Other Operating Expenses	840	6%	182	53%	221	15%	190	45%	31	14%
Total Operating Expenses	2,061	16%	1,257	363%	1,293	86%	1,213	287%	79	6%
Total Expenses	4,212	33%	1,430	414%	1,521	101%	1,419	336%	102	7%
Net from Operations	339	3%	813	235%	784	52%	561	133%	(224)	(29%)
Other Income (Expense)	(126)	(1%)	(14)	(4%)	45	3%	-	0%	(45)	(100%)
University Services	(300)	(2%)	(294)	(85%)	(294)	(20%)	(294)	(70%)	-	0%
Total Other Income (Expense)	(426)	(3%)	(308)	(89%)	(249)	(17%)	(294)	(70%)	(45)	(18%)
Transfer to Plant Fund Reserves	(1,418)	(11%)	-	0%	-	0%	-	0%	-	0%
Net to Reserves	\$(1,505)	(12%)	\$505	146%	\$535	36%	\$267	63%	\$(268)	(50%)
Noncash transactions (add back):										
Depreciation & Amortization	111	1%	81	23%	77	5%	71	17%	6	8%
Other Expense	138	1%	14	4%	19	1%	-	0%	19	100%
Adjusted Net to Reserves	\$(1,255)	(10%)	\$600	173%	\$631	42%	\$338	80%	\$(293)	(46%)

* Estimate based on eight months actual and four months estimate

** Columns may not foot due to rounding

CAL POLY PRINT & COPY

(in thousands) **	Fiscal Year 2016-17 Actual	% of Sales	Fiscal Year 2017-18 Budget	% of Sales	Fiscal Year 2017-18 Estimate*	% of Sales	Fiscal Year 2018-19 Budget Proposal	% of Sales	2018-19 Budget v. Estimate Variance	Favorable (Unfavorable) % Variance
Sales	\$385	100%	\$346	100%	\$428	100%	\$422	100%	\$(5)	(1%)
Cost of Goods Sold	49	13%	46	13%	62	15%	73	17%	(11)	(17%)
Gross Margin	335	87%	300	87%	365	85%	349	83%	(16)	(4%)
Other Revenues	14	4%	13	4%	-	0%	-	0%	-	0%
Income Before Operations	349	91%	312	90%	365	85%	349	83%	(16)	(4%)
Salaries & Wages	124	32%	127	37%	146	34%	145	34%	1	1%
Benefits	45	12%	47	14%	36	8%	61	14%	(25)	(68%)
Total Payroll Expense	170	44%	173	50%	182	43%	206	49%	(24)	(13%)
Depreciation & Amortization	6	2%	5	1%	6	1%	4	1%	1	22%
Rent / Lease Expense	-	0%	1	0%	-	0%	1	0%	(1)	(100%)
CPC Administrative Assessment	-	0%	18	5%	18	4%	19	5%	(1)	(3%)
Other Operating Expenses	105	27%	100	29%	100	23%	91	21%	10	10%
Total Operating Expenses	111	29%	125	36%	124	29%	115	27%	9	8%
Total Expenses	280	73%	298	86%	306	72%	321	76%	(15)	(5%)
Net from Operations	69	18%	14	4%	59	14%	28	7%	(31)	(52%)
Other Income (Expense)	(3)	(1%)	-	0%	-	0%	-	0%	-	0%
Total Other Income (Expense)	(3)	(1%)	-	0%	-	0%	-	0%	-	0%
Transfer to Plant Fund Reserves	243	63%	-	0%	-	0%	-	0%	-	0%
Net to Reserves	\$310	81%	\$14	4%	\$59	14%	\$28	7%	\$(31)	(52%)
Noncash transactions (add back):										
Depreciation & Amortization	6	2%	5	1%	6	1%	4	1%	1	22%
Adjusted Net to Reserves	\$316	82%	\$19	6%	\$64	15%	\$32	8%	\$(32)	(50%)

* Estimate based on eight months actual and four months estimate

** Columns may not foot due to rounding

OPERATING BUDGET DISCUSSION

Sales and Cost of Goods Sold for FY 2017-18 primarily include the sale of inventory on hand at July 1, 2017 to Follett, in accordance with the contractual agreement. Inventory was purchased according to the terms of the agreement, which was largely at full cost. At the time FY 2017-18 budgets were prepared, these terms had not been finalized and the sale of inventory on hand at July 1, 2017 was not included in the budget.

Sales and Cost of Goods Sold for FY 2017-18 also include results from Cal Poly Print & Copy operations. The favorable variance from budget and prior year is primarily the result of an increase in sales of course packs, as well as outsourced printing. These increases are driven by the exclusivity arrangement with Follett for the printing of custom published course materials. Sales at Cal Poly Print & Copy for FY 2018-19 are expected to remain relatively consistent with FY 2017-18.

Other Revenues primarily represent guaranteed commissions earned. The contract with Follett provides for a guaranteed minimum commission of \$1.9 million in FY 2017-18. Subsequent years provided for a guaranteed minimum commission of 95% of the previous year's commissionable sales. An analysis of FY 2017-18 sales indicate that guaranteed minimum commissions for FY 2018-19 are forecasted to be approximately \$1.6 million.

Payroll Expenses for FY 2017-18 include approximately \$46,000 in wages paid to intermittent staff during July and August to manage the wind-down of bookstore operations at the Corporation Warehouse and to close the accounting fiscal year. Inventory not purchased at contract commencement by Follett was housed at the Warehouse and either liquidated or disposed. These expenses were not anticipated in the FY 2017-18 budget.

The unfavorable variance in FY 2017-18 payroll expense at Cal Poly Print & Copy is a result of an increase in intermittent wages. During the second quarter, the store manager left Cal Poly. The Corporation hired an interim manager to temporarily fill the position until a recruitment for a full-time manager could be completed. A recruitment was completed and the new manager started during the third quarter. The increase in payroll expense for FY 2018-19 includes an increase in intermittent wages to continue supporting the increase in sales volume.

Payroll expenses for FY 2018-19 reflect a 4% compensation pool for full-time employees, with an additional 1% in January 2019 for employees at lower earnings to address compression from minimum wage increases. They also reflect an increase in the minimum wage for student and part-time employees in January 2019, and fringe benefit rates consistent with FY 2017-18.

Operating Expenses include continuing direct expenses for the University Store and Cal Poly Downtown (i.e. rents, taxes, depreciation and utilities) as well as contract management and indirect cost support. The variance from budget represents unbudgeted expenditures for insurance, general maintenance, and waste disposal. FY 2017-18 Operating Expenses at Cal Poly Print & Copy are consistent with budget.

Other Income (Expense) for FY 2017-18 primarily represents adjustments made in the current year for various transactions that occurred in the prior year but were not processed until after the accounting books were closed. Other expenses for FY 2018-19 include ongoing funding for University Services.

STATEMENT OF RESERVES OVERVIEW

	Operating Reserve	Facilities Reserves	Investment in Operating Assets (non-cash)	Capital Outlay Reserve	Total
June 30, 2016 Reserve Balance	\$2,863,331	\$5,855,547	\$354,807	\$159,508	\$9,233,193
FY 2016-17 Change in Reserves	(1,513,750)	1,418,467	168,433	(159,508)	(86,358)
June 30, 2017 Reserve Balance	1,349,581	7,274,014	523,240	0	9,146,835
FY 2017-18 Change in Reserves (estimate)	(238,631)	(1,128,444)	(97,864)	0	(1,464,939)
June 30, 2018 Reserve Balance (estimate)	1,110,950	6,145,570	425,376	0	7,681,896
FY 2018-19 Change in Reserves (budget)	33,328	304,289	(70,791)	0	266,826
June 30, 2019 Reserve Balance (budget)	\$1,144,278	\$6,449,859	\$354,585	\$0	\$7,948,722

Reserves for other commercial activities are designated as follows:

Operating Reserves represents working capital held for contingencies and continuing operations. Prior to June 30, 2017, the reserve balance included a large provision for University Store and Cal Poly Downtown operations 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. The reserve balance for the University Store contract at June 30, 2017 and beyond is equal to 100% of the subsequent year's budgeted operating expenses (less depreciation expense), which reflects the change in business model effective July 1, 2017. Operating reserves at Cal Poly Print & Copy for June 30, 2018 (estimate) and June 30, 2019 (budget) are equal to 25% of the subsequent year's budgeted payroll and operating expenses (less depreciation expense).

Facilities Reserves represent accumulated earnings after all other reserve requirements have been met. These funds will be used for future construction, renovation, or replacement of campus facilities. These funds are transferred to the Plant Fund on an annual basis. During 2017-18, the Board of Directors approved the expenditure of \$2 million in these reserves as a contribution towards the construction of the Science and Agriculture Teaching and Research Complex.

Investment in Operating Assets for June 30, 2018 (estimate) and June 30, 2019 (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

There are no capital outlays requested for FY 2018-19.