

UCOP RATE AND RECHARGE GUIDELINES

RECHARGE AND INCOME ACTIVITIES

DEFINITION

Recharge and income activities provide specific goods or services to other internal University departments and/or external users; services to external users should be minimal. These activities may be recharged to recover the costs of providing these goods or services through “rate-based” charges to users, and are expected to operate on a break-even basis. Recharged activities should be established to provide goods or services that are not readily available from outside sources or if there are overriding programmatic, economic, ethical or institutional reasons to provide the service.

The following are **not** recharge or income activities and are not subject to these policies and procedures:

- Expense allocation for services or functions of a department that are within the scope of their core-funded activities, typically general or departmental administration, extramural funding accounting and institutional support services (e.g., central accounting and budgeting service). Example: RGPO “charging” other units for their own central services. These are expense allocations and not recharge activities.
- Activities that involve a one-time distribution or transfer of expenses, or activities that serve only one customer.
- Activities that contain charges that cannot be readily calculated on a per unit or per hour basis, or where the good or service is not offered on a recurring basis to more than one customer.

CRITERIA FOR RECHARGE SALES AND SERVICE ACTIVITIES

In order to recharge a sales and service activity, the activity must meet the following criteria:

- There exists a demand for this particular service by more than one O/P division.
- Service will be provided on a regular and continuing basis.
- Service should be identifiable as opposed to general administration costs.
- Separate costs and budget can be clearly defined for these activities.
- Rates should be stated in measurable units of goods or services.
- Rates for goods and services must be charged at the same rate to all users and reflect the full cost of the operation, net of any approved subsidies. In establishing recharge rates, a recharge center cannot discriminate against any internal group of users and should charge the same rate for the same level of services or products purchased under the same circumstances. The use of special rates, such as for high volume work or less demanding applications, is allowed, but must be equally available to all users who meet the criteria. The federal government does not prevent the unit from charging external users a higher rate than that charged to internal users. Revenues from external users should be tracked separately.
- Goods or services should not be provided to external non-UC consumers except where they are specialized or unique and their existence is primarily to support the Office of the President. The primary reason recharge activities exist is to share resources and provide services for internal users. Inappropriate outside use of University resources could jeopardize the University’s tax-exempt status for various purposes, give rise to claims of warranty

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and other liabilities, or appear to involve unfair pricing in relation to service providers in the local business community.

- There must be a sound business case supporting the provision of these services and the manner in which they are provided. Alternative methods of providing these goods or services are to be reviewed by the UCOP recharge committee and the decision to provide or continue to provide these goods or services must be in the best interest of the University and in compliance with federal regulations. If the services are readily available from outside sources, there must be overriding programmatic, economic, ethical or other institutional reasons that support the continued need for the University to provide these services.
- An approved recharge activity must publicize its rates.

COMPONENTS OF A RATE

Recharge rates are the estimated total costs of providing the good or service, divided by the estimated number of service units to be provided. Service units are defined below. Generally, recharge rates are computed using both estimated costs and service units for the fiscal year for which the rate is being developed. However, costs that are unallowable for government costing purposes may not be charged.

For sales and services activities that include federal fund participation, OMB Final Guidance 2 CFR 200 (A-81) entitled [Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards \(Uniform Guidance\)](#) defines direct and indirect costs for purposes of accounting for federal funds. Under OMB rules, recharges are considered direct costs to users. Direct costs are those costs that can be specifically identified with an activity, or costs that can be directly assigned to such activities relatively easily with a high degree of accuracy. No recharge activity shall be approved which shifts indirect costs to direct costs in violation of OMB Uniform Guidance A-81.

ALLOWABLE COSTS

Allowable costs that can be included in rate development:

- Salaries and benefits of personnel directly related to the recharge activity.
- Supplies, services and reasonable general support costs; rebates, incentives, discounts, and allowances must be included and should be recorded as an offset to costs to which they relate. Such costs include:
 - Insurance
 - Meeting and travel-related expenses
 - Consultant and professional service fees
 - External services, e.g., computer, maintenance, grounds, etc. Maintenance and repair/alteration costs are defined as regularly recurring disbursements to keep the property in an efficient operating condition. This includes purchasing contracts with non-UC vendors for such activities as consultants to provide all or a portion of the recharged goods or services, maintenance of equipment, or to provide all or a portion of the administration of the recharge activity.

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- Utilities
- Library
- Temporary labor
- Installation charges and allowable lease and loan costs
- Other miscellaneous office costs such as office supplies, telephone, data processing charges, professional certifications, etc.
- Administrative costs of the sales and service activity such as billing, purchasing, personnel, supervision and other general support functions; these costs should be reported in the appropriate category on the recharge budget form, e.g., salaries and benefits, etc. *Note:* Costs related to supervision by the department with the sales and service activity may be excluded, provided the costs of such supervision do not exceed \$5,000.
- Pass-through expenses
- Equipment depreciation: Capital equipment used in support of the recharge activity must be included in the recharge proposal. Capital equipment should have a useful life of greater than one year and acquisition cost of \$5,000 or greater. Federal funds used to purchase capital equipment must be excluded from the rate proposal.

Depreciation should be calculated on a straight-line basis with no salvage value, using the useful life schedule at <http://eulid.ucop.edu/index.php>. Alternatives to the depreciation methodology may be approved when the unit can clearly demonstrate that the alternative method more accurately represents the actual usage, consumption or life of the equipment. Recharge proposals that include depreciation expense must be supported by a detailed depreciation schedule that includes the equipment item, UC property number, purchase date, useful life and annual depreciation expense.

Depreciation costs must be charged to the appropriate operating account-fund of the recharge activity with the offsetting credit to an associated renewal and replacement fund in accordance with established procedures.

- Other applicable costs

UNALLOWABLE COSTS

Costs that are unallowable and cannot be included in recharge rate development include:

- Costs specified as unallowable in OMB Circular A-81 - bank card fees, bad debts, legal fees, fines and penalties, entertainment, membership, donations and contributions, and advertising costs.

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- Costs of capitalized improvements, including renovation costs or significant alterations or structural changes to plant assets which increase the usefulness, enhance the efficiency, or prolong the life of the property.
- Internal interest charges. Interest paid to external parties related to installment purchases of equipment is allowed if approved by the federal government before the actual acquisition of the equipment;
- Administrative full costing assessments, however, these assessments may be included as a surcharge for external users only.
- Capital equipment purchases (unless useful life is one year or less); however, they may be included as depreciation.
- Exceptional charges that did not occur through the normal course of business; e.g. additional costs incurred to recover “uncollected” recharge income due to the department not billing recharge customers in accordance with the University recharge billing policies.
- Unallowable space costs: An activity should not include charges for its use of centrally supported space (i.e., building depreciation cost component, utilities) nor the University’s general and administrative costs as these are funded from other sources. However, if the unit incurs additional specialized costs such as leasing cost for an offsite facility that are not funded from other University resources, these can be included in the rate and costs of the unit.

RESERVES

Any reserves in a recharge activity must conform to applicable University policies and governmental regulations, and be documented in the recharge proposal and accounted for in the annual rate review. The main reserves are typically depreciation reserves.

- Depreciation Reserve - Capital equipment are stand-alone items with a useful life greater than one year and value greater than \$5,000. Capital equipment assigned to the activity **cannot** be charged directly to an activity. Depreciation renewal and replacement funds can be created through depreciation of existing equipment and should be included as a cost in the rate development, except as follows:
 1. Equipment funded by the federal government or identified as cost sharing to a federal project.
 2. Equipment funded by an award under a private contract and the contract is not completed. If the contract is completed and there is remaining life in the asset, the unamortized balance remaining at the end of the life of the asset can be depreciated and included in the rate calculation; e.g., asset has a useful life of five years but only three year life of the award, then asset may be depreciated for the remaining two years. All activity equipment must be entered into the equipment tracking system. This system is used for both financial reporting and government.

The depreciation reserve fund will be linked to an account specified by the department, and its budget will be the annual equipment depreciation (in sub 4). The balance of the depreciation reserve fund may only be used to purchase equipment for the recharge activity, or to repay the original fund that provided the monies to purchase the equipment.

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SURPLUSES AND DEFICITS

It is common for recharge activities to have a surplus or deficit at the end of any specific fiscal year because the actual revenues received and costs incurred during that year differ from the budgeted amounts used to calculate the recharge rate. However, over a period of several fiscal years it is expected that recharge activities will operate close to break-even. An exception is allowed for a working capital and depreciation reserves.

During the rate review process for a subsequent fiscal year, the projected surplus or deficit in excess of any allowed working capital surplus from the current year must be included as a reduction from or an addition to expenses in the subsequent fiscal year's budget and rate computation. In exceptional cases where inclusion of a surplus or deficit in the subsequent year would cause a severe fluctuation in the rates from one year to the next, approval may be granted to amortize the surplus or deficit over several years. Surpluses or other monies may not be transferred out of the recharge activity.

The unit must operate within the surplus/deficits described below. If the unit exceeds these tolerance levels (i.e., a large deficit/surplus as defined below), it must take immediate action to establish a plan to rectify the situation and bring the unit within the acceptable levels of tolerance.

- **Large Deficit** - If an activity has a large deficit, where the year-end general ledger deficit is defined as more than one month's operating expense, it must develop a deficit reduction plan to clear the deficit. The plan should eliminate the deficit in as short a time as possible, not to exceed three (3) years. This plan and an updated recharge proposal must be submitted to the Rate Review Committee within three months of discovering that a deficit exists.
- **Large Surplus** - If an activity has a large surplus, where the year-end general ledger surplus is defined as more than one month's operating expense, the unit cannot raise its rates, unless subject to detailed review. If an activity has a large surplus, it must provide the Rate Review Committee with a plan to amortize the surplus within 3 months of notification by the Committee of the surplus, along with an updated recharge proposal.

CHARGES TO EXTERNAL USERS

Generally, recharge activities can be provided to external non UC-users (e.g., external clientele over whom the University has no fiduciary responsibility, such as administrative and academic staff acting in a personal capacity, other non UC

universities, state and local agencies, commercial entities and the public at large) because they will benefit from the unique nature of an activity's products or services. Charges to external users (or non-University entities) should include a differential to recover the additional costs (e.g. – accounting and monitoring for the operation) of providing these goods or services to external users.

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DEVELOPMENT OF A RECHARGE RATE

Rates for goods and services must reflect the full cost of the operation, net of any approved subsidies and carryforward surpluses/deficits, and the same rates must be charged to all internal customers. Rates are considered reasonable if the nature of the costs and the related goods or services acquired or applied to provide the goods or services reflect the action that a prudent organization would have taken under the circumstances prevailing at the time the decision was made to incur these costs. Considerations involved in the determination of the reasonableness of a rate are:

- Whether or not the costs included in the rate are of a type generally recognized as necessary for the operation of the activity;
- Whether or not there are restraints or requirements imposed by such factors as arm's-length bargaining, federal and state laws and regulations, and any other related terms and conditions in the normal course of business;
- Whether or not the unit concerned acted with due prudence in the circumstances, considering its responsibilities to the University, the federal government, and the public at large; and,
- The extent to which the actions taken with respect to incurring these costs are consistent with established institutional policies and practices applicable to the work of the institution generally.

POSSIBLE RATE CALCULATIONS:

- A. Fully Costed General Rate Calculation - In its simplest form, or for a one-product service unit, an activity's rate is cost-based. Users are allocated a share of the activity's costs based on the relative use of the activity's products or services. A single, unitized cost rate (cost per unit of output) is used to recover the expense of providing a product or service. This rate is calculated by dividing the total budgeted expense for providing the product or service by the total projected level of activity for the budget period.

"Total Budgeted Expense" equals all costs directly associated with the activity's operations and is the numerator in the rate calculation. "Projected Level of Activity" is the total estimated volume of work to be performed in an activity, expressed as labor or machine hours, CPU time, or units of products or services to be provided. This is the denominator to be used in the calculation of the rate. The actual level of activity multiplied by the rate determines the amount to be charged to each user.

$$\text{Rate} = \frac{\text{Total Budgeted Expense} \\ \text{(Plus Prior Year Deficit, or} \\ \text{Minus Prior Year Surplus)}}{\text{Total Projected Level of Activity} \\ \text{For the Budget Period}}$$

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While most activity rates will be cost-based for each specific service or product, an activity offering multiple related services or products may establish multiple rates for a variety of services that, in aggregate, recover the total costs of the activity. The activity must be able to demonstrate it has made reasonable assumptions in allocating common costs that cannot be easily identified to a specific service or product within the unit. Rates are normally calculated on an annual basis and must be updated biannually. Adjustments may be made as needed during the year to accommodate changing circumstances and to ensure the unit remains within tolerance. External users should be charged the fully costed rate(s), including costs that may not be charged to internal users.

B. Other variations of fully costed rate calculations include the following:

- Stores Service Units - A store's rate is determined by dividing its administrative or operating costs by its projected cost of goods sold. Its rate is, therefore, a markup percentage on the cost of goods sold. If this method is adopted, the markup needs to represent fairly the operating and administrative services provided by the unit for the goods or services. If the cost of providing the operating and administrative services is similar for say a \$1,000 or a \$100,000 order, then this method should not be used.
- Time-of-Day - Activities that have a wide fluctuation in usage during the day may establish a time-of-day rate structure. Higher rates may be charged during hours of peak use ("prime time") to provide incentives to reduce the demand for services during these times. This structure helps all users by improving performance during peak hours and encouraging the utilization of off-peak hours, thereby reducing the cost for additional equipment. Activities utilizing a time-of-day rate structure must show that all users have an opportunity to use the activity rate during non-peak hours and that no particular user, especially sponsored research projects, is disadvantaged by the proposed rate structure. This type of rate structure is used most frequently in computer and communications service units and with use of scientific equipment such as magnets for magnetic resonance imaging (MRIs).
- Computer Shares - Computer facilities may charge users based on the computer "shares" concept. The computer capacity is divided into shares. Users purchase shares necessary to meet their computing requirements.
- Volume Discounting - Sometimes economies of scale dictate that a large quantity of a product or service can be provided to a customer at a lower overall cost than the normal per unit rate. Such a volume discount is allowed as long as 1) it is disclosed and justified in the activity's proposed budget and rates; and 2) its effect is not discriminatory to a single type of customer, other than by amount of product or service provided.
- Allocating joint costs to service units - A recharge activity that provides more than one service unit may have costs that apply jointly to two or more of the service units. In order to compute a recharge rate, such joint costs must be allocated to the individual service units to which they apply. This allocation can be done on any basis that appropriately reflects the relative benefit of the joint costs to the individual service units. Some common bases for allocating joint costs are FTEs, chargeable labor hours, hours of machine usage, and assignable square footage.

A recharge activity with joint costs may have a single pool of joint costs, or multiple pools of joint costs that are allocated on different bases. For each pool of joint costs, the recharge proposals should show the basis used to

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allocate the joint cost pool and computations supporting the allocation of joint cost pool to the individual service units.

- C. Subsidies - For various reasons, an activity may wish to charge its users less than fully costed rates, and may choose to subsidize unit operations with operating budget or other unrestricted funds. In these circumstances, an activity would first calculate a fully costed rate in accordance with the "Fully Costed General Rate Calculation" discussed above. Subsidies should be shown as a subtraction from total expenses for the service units to which they apply to arrive at a subsidized rate. The amount, funding source, and purpose of all subsidies should be disclosed in the recharge activity's proposal.. It is important for the department, division, and UCOP-wide administration to properly recognize subsidies when they occur.

Subsidized rates must be consistently charged to all internal University unit users. Subsidies should not be used to reduce the rates charged to selected users of the recharge activity in a discriminatory manner.

RECHARGE COMMITTEE

The recharge committee will consist of five permanent positions and a rotating position that will be filled based upon the nature of the recharge activity being reviewed. The Committee will be chaired by the UCOP Budget Director, with one seat occupied by the Manager of Costing Policy and Analysis, and the three remaining permanent seats filled by representatives from other departments within the Office of the President.

The purpose of the recharge committee:

- Review and provide rulings on all newly proposed recharges.
- Review annual self certification forms submitted by existing recharge activities.
- Review biennial rate adjustments submitted by existing recharge activities.
- Review rate proposals that are due to changes in methodology by existing recharge activities.
- Review existing recharge activities with a surplus/deficit > 1 month's operating costs (see surplus and deficit section above).

RATE PROPOSAL SUBMISSION TIMELINE

Proposed recharge methodologies should be accompanied by sufficient justification, detail and documentation so that reviewers can easily follow the rationale and calculations supporting proposed rate structures. These activities will be subject to an initial rate review process conducted by the UCOP recharge committee. All recharge must be permanently budgeted, revised at the end of each year to reflect the revenue and expenditure levels in the following year. Additionally, units must undertake annual self-certification of their rates following initial review and submit biennial rate updates.

While rate adjustments generally take effect on July 1, under special or unusual circumstances it may be possible to set an alternative implementation date. Recharge methodologies proposing new rates beginning the following fiscal year should

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be submitted no later than March 1 before the beginning of the new fiscal year. All other recharge proposals submitted outside the annual cycle will be reviewed and acted upon by the Recharge Committee as quickly as possible. The following submission dates will ensure both timely review and adequate notification to departments for July 1 rate implementation.

Initial proposals	March 1
Proposals with changes in methodology (change existing rates or add/delete rates)	March 1
Biennial rate updates	March 1
Annual Self certification forms	April 15

** Units with large deficit/surplus should submit a reduction plan and updated recharge proposal within 3 months of deficit/surplus discovery.

The prior fiscal year column on the comparative income statement should match the financial activity and balances as shown on the June Final general ledger of the previous fiscal year (e.g. – for rate proposals submitted on March 1, 2015 for July 1, 2015 implementation, attach June Final 2014 General Ledger). Any prior year surplus or deficit carry forward balances should be included in subsequent year rate computations.

It is the unit's responsibility to advise its users of current activity rates and of any rate changes. All rate proposals must be submitted through the department/division unit head prior to submission to the UCOP Budget Office.

HOW TO ESTABLISH A NEW RECHARGE CENTER

- Review all sections of this document.
- Ensure the operation meets the criteria of a recharge unit.
- Discuss and submit the proposal to the UCOP Budget office to ensure it is in accordance with the missions of the unit and the University.

A proposal to establish a new recharge center must contain the following information:

- The recharge unit's name.
- A description of the product(s) or service(s) to be provided, and the potential users (internal and external).
- An explanation as to how the recharge center rate(s) will be determined including:
 - Detailed annual expense budget, by G/L code (including FTE with salary data) for the proposed unit;
 - Description of the activity base, its appropriateness, and the projected level of activity for the first year of operation;
 - The rate calculation(s) using the proposed budget amount(s) and the projected level(s) of activity for the first year of operation.

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- A list of all of the capital assets already purchased that will be used in the recharge center.
- List of federal level participation. Institutional risk increases when there is anticipated revenue from federal fund sources. A separate analysis on risk assessment would be undertaken depending on the size of the annual budget and the degree of federal participation.

CLOSURE OF RECHARGE OPERATIONS

The recharge committee must be informed of closure decision and how the unit intends to account for any remaining surplus or deficit. When a recharge unit ceases to operate, the remaining balance must be treated as follows:

For surplus balances:

If the surplus is greater than one month of operating costs, the balance will be refunded to the unit's recharge customers on a pro-rata basis, within 30 days of closure. The refund will be allocated on the basis of charges made to these customers in the last 12 months. If the surplus is less than one month of operating costs, the balance will be retained by the sponsoring unit and moved to an appropriate chart string.

For deficit balances:

If the unit closes with a deficit balance, the balance must be transferred financially to an appropriate chart string within the department. If it is not moved by the end of the fiscal year, the entire deficit balance will be subject to the terms of the deficit policy without the application of a tolerance. A decommissioned recharge unit may use its equipment replacement reserve fund to offset any recharge operational deficit. Balances in the reserve fund beyond deficit coverage may be retained by the department with UCOP Budget Office approval.

RECHARGE FORMS

Attachment I - UCOP Annual Recharge Activity Self Certification form

Attachment II - UCOP Rate Proposal Forms