

UNIVERSITY OF CALIFORNIA SANTA CRUZ RECHARGE RATE POLICIES

RECHARGE DEFINITION:

A recharge is defined as "the cost charged to a University department for specific goods or services provided by another University department". *Recharges move funding/expenses from one department to another, without increasing total funding for the campus.*

CRITERIA FOR A RECHARGE THAT IS REVIEWED BY THE DIRECT COSTING COMMITTEE:

- There exists a demand for the product or service by more than one University department.
- There is a significant volume of recharging, both in dollar and transactions.
- Services will be provided on a regular and continuing basis
- Services will be unique or specialized.

THE DIRECT COSTING COMMITTEE DOES NOT REVIEW ALL CAMPUS RATES AND FEES:

The Direct Costing Committee does not review rates/fees whose primary purpose is to provide goods or services to individual users, rather than campus departments. Examples of rates not reviewed by the Committee would include retail, housing and food service enterprises as well as parking, recreational and student based fees. In many cases, these fees are reviewed by other campus committees such as the Student Fee Advisory Committee and Miscellaneous Fee Advisory Committee.

RECHARGE RATE DEVELOPMENT AND APPROVAL CYCLE:

- Unit develops rate proposals
- Vice Chancellor/Dean concurs with unit rate proposal
- Proposals due to Planning and Budget – **March 20**
- Direct Costing Committee Review – April
- Vice Chancellor Planning and Budget Review/Approval – May
- Units update permanent budget and notify customers – May & June

RECHARGE RATE CALCULATION:

The recharge rate equals the cost of providing the products or services, divided by the number of service units to be provided.

RECHARGE RATE COST COMPONENTS MUST BE ALLOWABLE AND DIRECT:

- Salaries and employee benefits
- Supplies and Services
- Costs of leased equipment/facilities
- Inventorial equipment depreciation
- Administrative costs of the recharge
- Repairs and maintenance expenses

UNALLOWABLE COSTS FOR RECHARGES:

Unallowable for all Recharges: Acquisition/purchase costs of inventorial equipment (\$5,000 or more per unit); or total costs of capitalized renovations or leasehold improvements.

Unallowable for Recharges to Federal Government Funds: Housing and personal expense to campus officers; bad debts and fines or penalties; commencement or convocation costs; interest expense or fund raising expenses; memberships in civic, community or social organizations; contingency or expansion reserves; inventorial equipment purchases; cost of items funded by Federal Government; alumni activities; entertainment (alcohol, event tickets, flowers, gifts, etc.); donations or contributions. The following are allowable only if directly related to the Federal Project: legal proceeding costs, student activities costs, and advertising and public relations costs (refer to OMB Circular A-21).

Federally Unallowable Account Codes: (List attached at end of this document).

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HOW DO RECHARGE ACTIVITIES COMPLY WITH FEDERAL COSTING?

Campus Policy: Develop different recharge rates for the same service (a federal rate and a non-federal rate) to accommodate recovery of costs. The federal rate will exclude unallowable costs; and therefore, will be less than or equal to the non-federal rate.

Other Methods: If possible, Federal funded activities will not make use of the recharge service; or timely reimbursement to the Federal contract and grant activities for the amount of the unallowable costs billed in the recharge rates (See Federal Refund Template 9).

RECHARGE ACTIVITIES MUST BE FULLY COSTED:

All allowable costs of providing the product or services must be included in the recharge rate.

COSTS INCLUDED IN RECHARGE RATES MUST BE REASONABLE:

- The cost is generally recognized as necessary for the operation of the recharge.
- The incurrence of the cost is consistent with policies and practices of the organization.
- The nature of the cost and the amount are reasonable for the services provided.

RECHARGE COST COMPONENTS MUST BE IDENTIFIABLE OR REASONABLY ALLOCABLE:

Identifiable: A cost that is identified specifically with a recharge product or service.

Reasonably Allocable: The costs can be assigned to one or more recharge rates in reasonable and realistic proportion of the benefit provided. (Unit administrative costs assigned to separate recharge rates for different services, based on proportion of service to each recharge rate center.)

SEPARATE RATES MUST BE ESTABLISHED FOR EACH CATEGORY OF THE RECHARGE SERVICE:

Different services offered within the same unit or department may have separate recharge rates for each class of goods or services.

COSTS MUST BE CONSISTENTLY TREATED:

Identical goods and services must carry identical prices for any and all departmental campus customers, with the exception of dual pricing for Federal and non-Federal activities.

EXTERNAL REVENUE:

It is a University-wide policy not to compete with external businesses by selling campus goods and services to off-campus users except in the following circumstances:

- The sale or service is related to the University's mission of teaching, research, and public service.
- The products/services are not reasonably available elsewhere and the sale is not inconsistent with University objectives.
- The products/services are primarily for the convenience of students or employees.

- A recharge unit may collect revenue in excess of full direct plus indirect costs to one or more external users.

- The surplus revenue must be transferred out of the recharge operating fund annually.

- Such surplus revenue may support the recharge unit.

A SEPARATE BUDGET FOR THE RECHARGE IS NORMALLY REQUIRED:

All expenses and income associated with each recharge should be set up in a separate fund (generally a 6XXXX fund) and normally a separate organization code. Recharge activities with anticipated revenues of \$5,000 or more per year should establish projected revenue projections within the campus' permanent budget. Permanently budgeted recharge revenue projections need to be adjusted annually to reflect revised projections.

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RECHARGE ACTIVITIES OPERATIONS ARE EXPECTED TO BREAK-EVEN:

Recharge activities shall be operated on a no-gain/no-loss basis. Any surplus or deficit occurring in any one year shall be corrected by adjustment of rates in the succeeding year to achieve a break-even balance at the succeeding year end. Every effort should be made to ensure that year-end surpluses or deficits do not exceed one month of the recharging unit's activity. The adjustment of rates will generally be based on estimates since actual performance data for the year will not be available prior to the development and publication of the succeeding year's recharge rates. In exceptional cases when such an adjustment would create a severe fluctuation in rates from one year to the next, achievement of a break-even balance can be extended for a reasonable period beyond the succeeding year upon the recommendation of the Direct Costing Committee, and approval by the Vice Chancellor for Planning and Budget. The recharge activity should develop a business plan that retires the deficit or excess surplus within a reasonable time frame, generally within 3 years.

RECHARGE SURPLUSES AND DEFICITS:

Surpluses and deficits occur when actual costs and/or units provided differ from estimates used to compute the rates, and are expected in any single fiscal year of a recharge activity.

- The surplus or deficit, projected to year-end, should be included in the next year's rate (reduce rate if a surplus, increase rate if a deficit).
- Surpluses of one recharge activity may not be used to offset deficits from another.
- Surpluses or other monies may not be transferred out of a recharge activity without prior authorization (Assistant Vice Chancellor Planning and Budget).
- Recharge activities will be charged Short Term Interest (STIP) quarterly on deficit balances.

RECHARGE RATE SUBSIDIES (Example: General Funds are used to fund part of the cost of the Recharge operations. Recharge rates do not cover full cost of doing business):

- A subsidy is funding from an outside source that funds the service or product operations.
- A subsidy may be used to: pay for expenses of the recharge activity; pay for specifically identified expenses; or to reduce the price of specific products or services produced by the recharge.
- Multiple subsidies are allowed.
- Subtract expenses that are funded by subsidies to compute recharge rate.
- The amount, funding source, and purpose of each subsidy must be disclosed.

RESERVES THAT ARE ALLOWABLE IN RECHARGE ACTIVITIES:

• **Depreciation renewal and replacement reserve**

In general, inventorial equipment assigned to the recharge activity shall be depreciated. Depreciation expenses are to be included as a cost element for recharge rate calculation purposes. Depreciation shall be calculated on a straight-line basis unless it can be demonstrated that some other method is more appropriate. A depreciation reserve fund to be used for equipment replacements shall be established and credited with the amounts charged to operations for depreciation expenses (see Definition of Equipment for Depreciation).

- Equipment purchased with 199x funds may not be included in depreciation schedules used for Federal recharge rates as it is already included in the campus overhead rate charged to contracts and grants.
- Equipment purchased with Federal funds may not be included in depreciation schedules used for Federal recharge rates.

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- **Working Capital Reserve**

Financing for current needs of auxiliary and service enterprises such as inventories or accounts receivable, and for capital needs such as equipment, structures, and renovations may be provided by establishing a Working Capital Reserve. Funds for capital needs (above the amount made available by depreciation) may be accumulated by setting prices above costs in order to build reserves. Funds for current needs may be accumulated and must be earmarked for a specific purpose.

- These accumulated reserve funds are not to exceed two months of the operating activities expenses. If a recharge operation needs to accumulate more than two months of operating activities, a justification should be submitted with the recharge packet.
- Inclusion of the cost of accumulating the Working Capital Reserve in recharge rates to the Federal Government is not allowed. The Federal Government will not accept any markup above cost, even if the purpose of that markup is to accumulate funds for equipment replacement or addition or for inventory expansion.
- The Working Capital surplus accumulated is not included in next year's rate computation and budget.
- Working Capital Reserve accumulated earnings must be transferred to a separate reserve fund.

- **Surplus External Revenue Reserve**

Reserves accumulated by charging in excess of full direct costs to external users of the recharge service are allowable and must be isolated from the operating balances.

Net Income at year-end (after depreciation, working capital, and surplus external revenue reserves are accounted for and transferred to specific reserve funds) shall remain as a balance in the recharge operating FOAPAL to be used to offset future operating costs. Contingency provisional reserves made for events, the occurrence of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happening, are not allowed.)

DEPRECIATION OF EQUIPMENT (See guidelines for Definition of Equipment for Depreciation)

DOCUMENTATION:

Recharge units have the primary responsibility for maintaining all records necessary to support and document their operations.

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POLICY AND REGULATION DOCUMENTS:

- **OMB Circular - 21, Cost Principles for Educational Institutions**
- **GASB 35, as it relates to depreciation for recharge units**
- **Accounting Manual Chapter A-000-7, Official Documentation Required in Support of University Financial Transactions.**
- **Business and Finance Bulletins:**
 - A-47, University Direct Costing Procedures
 - A-56, Academic Support Units Costing and Billing
 - A-59, Costing and Working Capital for Auxiliary and Service Enterprises

LIST OF FEDERALLY UNALLOWABLE ACCOUNT CODES

<u>Account Codes</u>	<u>Descriptions</u>	<u>Number of User Defined Account Codes</u>
	Stipends for Scholarship and Fellowships	
001040	Services - Scholarship Stipend	5
001080	Services - Fellowship Payments	5
001130	Services – Housing Allowance/Subsistence	
001160	Services - Stipend Payments	0
001170	SIS FinAid Disburse - Schlsp & Fellsp	0
	Memberships and Subscriptions	
001210	Services - Memb.Subsp - Not Fed Chrgabl	5
	Advertising including Public Relations And Promotions	
001240	Advertising - Not Federally Chrg'ble	0
	Social Activities and Entertainment	
001250	Services - Entertainment/Soc Acty	5
001251	Academic Activities	
001252	Alumni Activities	
001253	Student Programming Refreshments	
001270	Administrative Meetings	
001271	Entertainment	
001273	Outreach Activities	
001285	Services – Donations/Contributions	5
001330	Services – Debt Collection Fees	
001340	Services - Cost of Legal Proceedings	
001460	Services – Public Relations Services	
	Patient Care	
005010	Medical - Patient Care	0
009430	Fines & Penalties	0
009460	Debt Payment Interest	
009465	Other Interest	
009480	Interest on Installment Purchases	
009490	Interest on Capital Leases	
Account type 72	Capital Equipment	