



## OVERVIEW OF INTEREST CHARGES (STIP) ON NEGATIVE BALANCES

### INTRODUCTION

The University earns interest income on fund balances invested in the Short Term Investment Pool (STIP). This income is distributed on a quarterly basis by the Office of the President. The quarterly STIP rate is calculated by dividing the total STIP income earned by the average daily campus fund balance.

The campus is charged interest on certain funds that have negative balances. The campus also loses interest income whenever a fund or account has a deficit. Because the campus's budget incorporates anticipated interest income to fund our operations, units are charged interest on deficits incurred.

### DEFINITIONS

Average Ending Cash Balance: The sum of the monthly ending cash balances of a fund for the 3 months in a quarter, divided by 3.

Level 4 Org-Fund: For the purposes of this document, a level 4 org-fund includes all organization codes under a given level 4 organization for a specific fund.

Level 4 Organization: In the campus's organizational code hierarchy, level 4 generally represents departments or sub-units. A level 4 org may have one or more individual organization codes under it.

Interest Charge: The amount charged to a fund or account with a negative balance; sometimes referred to as STIP or STIP interest.

Interest Rate: The rate charged or paid for the use of money, expressed as an annual percentage of principal. To determine the quarterly interest rate, divide the annual rate by 4.

Monthly Ending Cash Balance: The cash balance of a fund as of the final day of the month.

STIP (Short-term Investment Pool): The University's primary investment vehicle for cash to meet payrolls, operating expenses, and construction funds until they are expended. Established by the Regents in 1976, STIP is intended to maximize returns on short-term cash balances by taking advantage of the economies of scale of investing in a large cash pool, consistent with safety of principal, liquidity and cash-flow requirements.

Year-End Balance: The final balance of an account as of the June 30 close of the fiscal year.

**STIP FUND GROUPINGS**

At the University, there are 5 major fund groupings for treating STIP, each of which is handled differently.

1. University-wide Funds

- General Funds (199XX, including MRU fund 19922)
- Special State Appropriations & State Specific Funds (180XX)
- Educational Fees (20094, 20095)
- University Opportunity Funds (07427, 095XX)
- Educational Funds (05397)
- Off-the-Top Overhead Funds (69750)
- University of California Housing System
- System-wide endowments, UCOP managed funds and other sources

2. Gifts, Private Grants and Endowment Income

The interest earned on these funds is generally distributed on a 50/50 basis to University Relations and the appropriate Gift-Activity Center, as described in the 1996 memo from AVC Jensen on this topic.

<u>Fund Sources Evaluated for STIP Charges:</u>	<u>Fund Range:</u>
Regents Endowments (except system-wide funds)	13000-13999, 34000-39999
Private Gifts, Grants & Contracts	40000-59999, 62000-63999

3. Medical Compensation Plans

UCSC does not have this source of funds.

4. Federal Funds

Should there be a positive balance in a federal fund, which generates interest income, the U.S. Government would be reimbursed accordingly. Typically, there is a deficit balance in this grouping, since the campus is reimbursed by granting agencies after expenditures are incurred. STIP charges from this source are taken from grouping #5, below.

5. Campus Unrestricted Fund

<u>Fund Sources Evaluated for STIP Charges<sup>1</sup>:</u>	<u>Fund Range:</u>
Student Fees (excluding Educational Fee)	20000-20399 (excl. 20094/95)
Sales & Services (except UCOP funds)	60000-61999, 64000-69999
Reserves (except UCOP funds)	75000-75999
Auxiliary Enterprises (except UCHS)	70000-74999
Agency Funds	00000-00299

**INTEREST CHARGES ON NEGATIVE BALANCES**

Because the Campus Unrestricted Fund is charged for interest lost on certain negative fund balances, the campus has a long standing practice of passing these charges to the unit whose fund caused the interest charge. Implementation details for each fund group follows.

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<sup>1</sup> This is a simplified list for illustrative purposes and contains the majority of funds evaluated for STIP charges. In certain instances, funds other than those identified in this table may be charged STIP.

University-wide Funds: Prior to 2010-11, all STIP income on these funds was retained by UCOP<sup>2</sup>, although the campus was charged for negative balances in any specific fund. Because it was rare for a University-wide fund to fall into deficit for the entire campus, no process was implemented to charge interest on negative balances, since UCOP would lose the STIP income rather than the campus.

Effective 2010-11, UCOP has decentralized responsibility for STIP on University-wide funds to the campuses. Each campus is responsible for generating a certain amount of STIP income in order to fund its operating budget. Because any loss of STIP income due to unit deficits means additional cuts to campus programs, we must now implement a system for recouping lost interest income on these funds.

In order to simplify the administration and management of STIP charges for this fund group, any level 4 org-fund combination (see definition) with a negative year-end balance will receive an interest assessment at the start of the following fiscal year. This applies to any University-wide fund, as well as other centrally managed funds (i.e. Student Services Fee, Consolidated Business Services Fund, Information User Fund, etc.), beginning in fiscal year 2011-12 based on final balances from the previous year. The amount of the assessment will be the average STIP rate for the preceding year multiplied by the account's negative year-end balance. Note that encumbrances do not factor into determining an account's balance.

Gifts, Private Grants and Endowment Income: No change from current practice. Any individual gift or endowment fund with a negative average ending cash balance is charged interest on a quarterly basis. Expenses, revenues and transfers affect a fund's balance (but encumbrances do not), across all organization and account codes. For administrative simplicity, only funds with negative balances beyond \$200 are charged STIP.

Private grants with a negative average ending cash balance have their corresponding interest charges split between University Relations and the appropriate gift-activity center.

Campus Unrestricted Fund: No change from current practice. Any fund in this fund grouping with a negative average ending cash balance is charged interest on a quarterly basis (unless it is treated as a University-wide fund, as described above). Expenses, revenues and transfers affect a fund's balance (but encumbrances do not), across all organization and account codes. For administrative simplicity, only funds with negative balances beyond \$200 are charged STIP.

Example: Auxiliary Fund 70009 has the following ending monthly balances for the first quarter, where the STIP rate is 5%:

July:	-\$450,000
August:	-\$100,000
September:	+\$250,000

The average ending balance is -\$100,000 (the sum of the 3 monthly amounts divided by 3). The first quarter STIP charge is therefore \$1,250 (-\$100,000 multiplied by 5% divided by 4).

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<sup>2</sup> Responsibility for STIP on University of California Housing System funds was decentralized in 2008-09.