

Detailed Guidelines for Recharge Activities and Rates

This document applies to the operation, conduct and approval of recharge activities for service enterprises and academic support units only. This document does not apply to the activities of auxiliaries or to units/activities subject to external review.

The major policies and procedures for recharge activities are contained in the [Policy and Procedure Manual \(PPM\)](#), [Section 340-25, Recharge Activities](#). This document provides a lower level of detail than is available in PPM 340-25. This document includes details on developing, approving, managing and discontinuing recharge activities and rates.

I. Major Aspects of Rate Development

A. General Considerations

1. Units must develop rates that recover all the direct costs of the recharge activity and, when appropriate, indirect costs.
2. Direct and Indirect Costs
 - a. **Direct Costs:** Rates are based on estimates of direct costs. Rates include estimates of costs that will be incurred (e.g., salaries, benefits, supplies) and estimates of quantities that will be produced (e.g., tests performed, hours worked, products provided).
 - b. **Indirect Costs:** Rates may also include indirect costs. Generally, the campus uses a standard mechanism to collect indirect costs. For example, the facilities and administrative rate (F&A rate) is used to recoup indirect costs from federal customers. The non-university differential (NUD) is used for non-university (also called outside or private) customers. In addition to the NUD, a unit may include a mark-up in a rate charged to non-university clients.
3. Units must develop rates that achieve a break-even financial performance. Similar to resolving operating surpluses and deficits, a three-year timeframe is reasonable for evaluating whether or not an activity breaks-even.
4. A unit must not charge university clients in excess of the cost of the operation, unless when appropriately collecting for indirect costs.
5. Units must act in good faith on behalf of their clients and develop rates that are reasonable. Rates are considered reasonable if the nature of the costs included and the manner in which the goods or services are being provided reflect the actions that a prudent organization would have taken under similar circumstances.
6. Units must apply their rates consistently to all university clients. Units cannot discriminate for or against any university clients. Units may develop rates that take into consideration things such as high volume or less-demanding work; however, units must make these rates available to all clients who meet the specified criteria.
7. Units may subsidize rates, but units must apply the subsidy against the full direct costs of the rate. The unit must apply the subsidy consistently to all university clients. The unit must record the full costs (including the subsidy) for the activity in an identifiable account.

8. Units that have rates related to housing animals (vivaria) must comply with the National Institutes of Health (NIH) [Cost Analysis and Rate Setting Manual for Animal Research Facilities](#) and all campus rate policies.

B. Allowable and Unallowable Costs

In general, units may recover all costs that are allowable per [Title 2, Part 220 of the Code of Federal Regulations \(2 CFR 220\)](#), commonly known as [Office of Management and Budget \(OMB\) Circular A-21](#). The allowable and unallowable costs listed below are some of the more common categories.

NOTE: The list is not exhaustive. For detailed information, see Section J, OMB Circular A-21.

1. Allowable costs

- a. The salaries, wages and benefits of the personnel directly related to providing the recharge activity are allowable. This includes personnel that maintain equipment used in the recharge activity or directly administer the recharge activity. However, incidental administrative costs are unallowable – see Section I.B.2.a. below for details.
- b. Costs incurred for materials and supplies directly related to providing or administering the recharge activity are allowable.
- c. Costs incurred for necessary maintenance, repair and upkeep of equipment used in the recharge activity are allowable, provided that such costs do not appreciably increase the value or useful life of the equipment.
- d. The depreciation of equipment and capitalized improvements is allowable, unless the equipment or improvements were purchased with federal funds or were included in a Facilities and Administrative (F&A) cost pool. If you do not know if the equipment is included in an F&A cost pool, contact the [Office of Costing Policy & Analysis, Accounting and Financial Services](#).
- e. A prior-year operating deficit (increases a recharge rate) or a prior-year operating surplus (decreases a recharge rate) is allowable. In general, a unit must recover a surplus or deficit within three years.

2. Unallowable costs

- a. Administrative costs not related to the recharge activity are unallowable. Also, incidental administrative costs related to the activity are unallowable. Incidental administrative effort is when an individual contributes less than 5% of his/her annual effort in support of an activity.
- b. In general, advertising and public relations costs are unallowable.
- c. Bad debts, fines and penalties are unallowable. Exceptional charges that did not occur through the normal course of business are also unallowable.
- d. Costs of entertainment (amusement, diversion and social activities) and any costs directly associated with entertainment (tickets to shows or sporting events, meals, lodging, transportation, etc.) are unallowable.
- e. Costs already paid by the federal government are unallowable. This includes depreciation for equipment purchased with federal funds or space constructed with federal funds.

- f. In general, acquisition costs associated with the purchase of equipment, land, or buildings are unallowable.
 - g. Depreciation, capitalized renovations, or leasehold improvements are unallowable when the underlying asset is already included in an F&A cost pool.
 - h. Costs associated with the operation and maintenance of space that is eligible for state operations, maintenance and plant (OMP) support, including building depreciation and utilities, are unallowable.
 - i. A reserve for improvements (RFI) (also known as a contingency or expansion reserve) is an unallowable cost for federal customers. See Section I.C.2, Reserve for Improvement, below for details.
3. Including costs considered unallowable by the federal government

Including costs normally considered unallowable by federal guidelines requires the approval of General Accounting and BIA. The most common example of this exception is a Reserve for Improvement. Refer to the section below for details (**I.C.2.Reserve for Improvement**).

C. Equipment and Other Capitalized Assets

Units must properly record any equipment that will be used in a recharge activity in the Capital Asset Management System (CAMS) module of the Davis Financial Information System (DaFIS).

1. Depreciation (Reserve for Replacement and Renewal)

Once recorded in CAMS, a unit may include the depreciation of equipment in a recharge rate, provided that the equipment was not purchased with federal funds and were not included in a Facilities and Administrative (F&A) cost pool. If you do not know if the equipment was included in an F&A cost pool, contact the [Office of Costing Policy & Analysis, Accounting and Financial Services](#).

The Useful Life Schedule from the Office of the President must be used to develop your depreciation to comply with GASB requirements. If a unit has detailed history and documentation that clearly shows that the life of the equipment should be extended or shortened, then the unit should request an exception. The Useful Life Indices are located at <http://eulid.ucop.edu/index.php>

The General Accounting Office will establish a reserve for replacement and renewal fund for equipment expenses associated with a recharge activity. The unit must use the replacement and renewal reserve fund (76xxx) to finance the replacement of expended assets needed for the recharge activity.

2. Reserve for Improvement (RFI)

A Reserve for Improvement is established to set aside funds for future use other than those in the reserve for replacement and renewal fund. Some examples of how a unit may use an RFI include the purchase of additional, upgraded, or enhanced equipment; major maintenance and repairs; renovations; or other capital projects.

RFI costs are not allowable for federal clients. The Office of Costing Policy and Analysis must rebate the RFI portion of any rate paid by federal customers. To control the volume of RFI

rebates, a unit must not include a RFI in a recharge activity if the unit anticipates more than 15% of the recharge revenue to be generated by federal clients.

II. Non-university Clients

Non-university clients must pay at least the full direct and indirect costs. A unit recovers indirect costs by applying the non-university differential (NUD) to the direct costs included in a recharge rate. All recharge activities are subject to the NUD, except as follows:

- A. Fees for professional services rendered by members of the faculty, including clinical activities directly associated with the academic mission;
- B. Fees established by auxiliary or other service enterprises that already pay full University costs (both direct and indirect) for all goods and services received from the campus in support of the activity;
- C. Market-based prices for research by-products, where locally prevailing commercial rates determine the price (e.g., sale of agricultural by-products or surplus animals); or
- D. Ticket sales to the general public.

The departmental administration component of the NUD is returned to the department (recorded in the same account that records the income) and may be used at the discretion of the department. The balance of the NUD is retained by the central campus.

Under special circumstances, a unit may be allowed to assess a reduced NUD (not less than the general administration component of the NUD rate) on a recharge activity that does not have federal clients. To qualify for a reduced NUD, a unit must demonstrate that the sale of the product or service directly benefits the research mission and the application of the full NUD would have a detrimental effect on the unit's ability to realize the research benefits. The Associate Vice Chancellor of BIA, with the endorsement of the Recharge Group, must approve a reduced NUD.

A recharge activity may charge a mark-up rate in excess of full direct and full NUD costs to non-university clients. The surplus revenue generated by a mark-up should generally be transferred out of the recharge activity's operating fund to a reserve fund at least annually and may be used in any manner that supports the recharge activity and complies with other university policies.

Sales tax is not assessed on recharge rates; therefore, units are not responsible for assessing or collecting sales tax.

III. Recharge Activity Approval Process

The approval process for establishing a new recharge activity and the process for modifying an existing activity are not the same. Both processes are outlined below.

A. Establishing New Activities

1. Approval by the Dean/Vice Provost/Vice Chancellor

The dean, vice provost, or vice chancellor must approve the establishment of all recharge activities. If the activity meets both of the following criteria, then no other approval is required:

- a. The activity does not involve a mandated good or service, and the unit providing the good or service is not the sole provider, and
- b. The activity is not expected to generate more than \$50,000 in annual recharge revenue from federal contracts and grants.

If the activity involves a mandated good or service, the unit providing the good or service is the sole provider, or the activity is expected to generate more than \$50,000 in federal recharge revenue, then the office of the dean/vice provost/vice chancellor must submit the proposal to BIA for approval.

2. Approval by BIA

BIA must approve activities that represent a higher level of risk to the campus. This risk assessment is based on total recharge revenue, recharge revenue from federal contracts and grants and whether or not an activity is mandated or voluntary.

Upon receipt of a proposal from the office of the dean/vice provost/vice chancellor, BIA forwards it to the Recharge Group if the activity:

- a. Includes a mandated good or service, or the unit responsible for the activity is the only practical provider;
- b. The activity is expected to generate more than \$200,000 in annual federal recharge revenue; or
- c. BIA requests a review by the Recharge Group.

If none of the above criteria are met, then BIA has the authority to approve the proposal.

3. Recommendation from the Recharge Group

The Recharge Group advises BIA on activities that involve a mandated good or service or when the unit responsible for an activity is the only reasonable provider. In general, if the activity generates more than \$200,000 in annual federal recharge revenue, then the Recharge Group will defer to the Federal Recharge Group and the Federal Recharge Group will advise BIA.

B. Modifying Existing Activities

1. Approval by the Dean/Vice Provost/Vice Chancellor & BIA

The approval process for modifying existing activities is based on two filters. The first is the same criteria used when approving a new activity: whether or not an activity is mandated and how much federal recharge revenue it generates. The second filter is based on the type of modification that is being made (new rate, rate increase, pricing rationale change, etc.).

The dean, vice chancellor, or vice provost must approve all substantive modifications to recharge activities. If the activity does not involve a mandated service and generates less than \$50,000 in federal recharge revenue, then no other approval is required.

If the activity involves a mandated service or if the activity generates more than \$50,000 in federal recharge revenue, then the dean, vice chancellor, or vice provost may approve the following modifications without any additional approval:

- a. Establish a new rate based on an existing pricing rationale.
- b. Increase a rate consistent with campus budget planning guidelines.

However, if the activity involves a mandated service or if the activity generates more than \$50,000 in federal recharge revenue, then BIA must approve the following changes:

- a. Create or modify a pricing rationale.
- b. Create or modify a rate inconsistent with an existing pricing rationale.

The table below illustrates how the type of modification and the activity determines the office that has final approval. The red squares represent the instances when BIA approval is required. The blue squares represent the instances when only approval by the office of the dean/vice provost/vice chancellor is required.

Recharge activity modification scenarios – office with final approval	Mandated <u>OR</u> >\$50,000 Fed Recharge	Not Mandated <u>AND</u> <\$50,001 Fed Recharge
New rate consistent with existing pricing rationale*	Mandated: BIA*	D/VP/VC
	>\$50k: D/VP/VC	
New rate inconsistent with existing pricing rationale	BIA	D/VP/VC
Rate increase consistent with budget planning guidelines	D/VP/VC	D/VP/VC
Rate increase inconsistent with budget planning guidelines	BIA	D/VP/VC
Rate decrease	D/VP/VC	D/VP/VC
Change pricing rationale	BIA	D/VP/VC

***NOTE:** Mandatory rates must be approved by BIA, regardless of whether or not the new rate is based on an existing pricing rationale.

The Recharge Group will advise BIA based on the same criteria described above in section **III.A.3. Recommendation from the Recharge Group.**

IV. Managing a Recharge Activity

A. Budget

Units must develop a budget for each recharge activity that reflects the projected revenue and expense for the activity. Units must revise an activity's budget at the end of each fiscal year to reflect past performance and anticipated revenue and expenditures for the coming year. At least twice a year, units must review the current year budget and performance of its recharge activities.

B. Accounting System

The office of the dean/vice provost/vice chancellor must notify the General Accounting Office when a new activity is approved and when an activity is discontinued.

Units are responsible for maintaining the accounting attributes in the accounting system and any reserves or subsidies associated with the activity.

C. Billing

For detailed information on billing, units should refer to [PPM, Section 340-20, Billing Procedures of Service Activities](#) and [Accounts Receivable Help](#) provided by Accounting and Financial Services.

D. Deficits and Surpluses

Recharge activities must operate on a break-even basis. Therefore, units must make every effort to ensure that a recharge activity does not generate a year-end deficit or surplus in excess of 15% of prior-year expenditures. If the activity is subject to seasonal fluctuations, then a calendar year or other twelve-month period may be used to evaluate the surplus or deficit.

Units must recover any surpluses or deficits that are in excess of 15% of the activity's annual expenditures within three years. If the plan to recover the surplus or deficit requires a rate change, then refer to the approval process in section III. **Recharge Activity Approval Process.**

E. Inventory

Units maintaining supply inventories in excess of \$50,000 as part of a recharge activity must maintain perpetual inventory records. For detailed information, see [Section 350-60](#) and [Section 330-11](#).

F. Published Schedules

Units managing recharge activities must publish a schedule of their approved rate for customers and prospective customers to view. The schedule of rates must be published online or be readily available at the unit's office.

G. Documentation

The office of the dean/vice provost/vice chancellor is the office of record for their respective recharge activities. This means that each Dean's Office is responsible for maintaining all documents related to the establishment, modification and termination of a recharge activity. This includes written documentation to support the establishment, increase or decrease of all recharge rates that support an activity.

The file for each activity should contain, at a minimum, the following information:

1. List of current rates and most recent approval letter. Approval letters must contain a statement that the unit must publish a schedule of their approved rates either online or that it will be readily available to view at the unit's office.
2. Pricing rationale for each current rate.
3. Historical records from the last five years

V. Activity Review

A. Recharge Group Review

Once every three years, the Recharge Group must review activities that (1) involve mandated goods or services that generate more than \$500,000 in recharge revenue, or (2) generate more than \$200,000 in annual federal recharge revenue. Normally, the latter is referred to the Federal Recharge Group for review.

Once every five years, the Recharge Group must review activities that (1) involve mandated goods or services that generate less than \$500,000 in recharge revenue, or (2) generate between \$50,000 and \$200,000 in recharge revenue from federal contracts and grants. Normally, the latter is referred to the Federal Recharge Group for review.

The Recharge Group may review an activity regardless of the three- and five-year cycles if requested to do so by the unit, the dean, vice provost, vice chancellor, or BIA.

2. Purpose of the Review

The purpose of the review is to perform a periodic and comprehensive evaluation of recharge activities that present a higher level of risk to the campus. The function of the Recharge Group is to act as an advisory panel, representing the interests of the entire campus as well as their individual school/college/office.

The Recharge Group will evaluate, among other things, the following aspects of a recharge activity:

- a. Whether or not all customers are treated equally and fairly;
- b. Whether or not the activity is managed using sound financial practices, including whether or not costs and subsidies are allocated appropriately; and
- c. Whether or not the pricing rationales that support recharge rates are reasonable, consistent and adhere to campus guidelines.

3. Presentation Content

In order for the review process to be most effective, all units are encouraged to make a presentation to the Recharge Group that summarizes the recharge activity. While no two recharge activities are identical, all presentations should answer the following questions:

- a. What is the purpose of the activity? How does it serve the mission of the university?

- b. How does the recharge activity fit into the larger organizational structure (within the school/college or office/department)?
- c. Who are the primary customers of the activity?
- d. What is the annual budget of the recharge activity? Does the activity recoup all its direct costs, or is it subsidized? If general funds are used, how do you determine what is recharge and what is supported by general funds?
- e. What is the financial performance (revenue & expenses) for the most recent three years?
- f. How many rates are there within the activity and what is the pricing rationale(s)?
- g. Are there any modifications that need to be made to the activity?
- h. What metrics are used to define and measure the quality and success of the activity?

B. Annual Compliance Review

BIA must annually review the overall performance of all recharge activities. The purpose of the review is to identify activities that demonstrate signs of non-compliance and whose risk profile may have changed. BIA will focus on activities that have significant year-end surplus or deficit balances and those with significant increases or decreases in total or federal recharge revenue.

VI. Discontinuing a Recharge Activity

When a recharge activity ceases to operate, the unit must contact the General Accounting Office to discuss disposition of remaining balances. The unit must notify BIA that the activity is no longer operating and how any remaining funds were distributed.

A decommissioned recharge activity may use its equipment replacement reserve fund to offset any recharge activity operational deficit. Balances in the reserve fund beyond deficit coverage may be retained by the department with the approval of BIA.

VII. References

A. Office of the President Business and Finance Bulletins:

- 1. [A-47, University Direct Costing Procedures](#)
- 2. [A-56, Academic Support Unit Costing and Billing Guidelines](#)
- 3. [A-59, Costing and Working Capital for Auxiliary and Service Enterprises](#)

B. Office of the President, [University of California Records Disposition Schedules Manual](#)

C. UC Accounting Manual

- 1. [Account Classification](#)

2. Auxiliary Enterprises

D. UC Davis Policy and Procedure Manual:

1. Section 330-05, Business Contracts
2. Section 330-24, Budgeting for Employee Benefits
3. Section 330-55, Departmental Cashiering Operations
4. Section 340-20, Billing Procedures of Service Activities
5. Section 340-21, Service Agreements between Campus Units
6. Section 350-60, Management of Supply Inventories

E. Budget and Institutional Analysis Rate Materials

F. Accounting and Financial Services, Accounts Receivable Help

G. 2 CFR 220, Cost Principles for Educational Institutions (OMB Circular A-21)

H. National Center for Research Resources, Cost Analysis and Rate Setting Manual for Animal Research Facilities

I. UCOP Useful Life Indices for Equipment Depreciation

Appendix I: Sample approval letter for establishing a new activity

NOTE: This is an example of an approval letter to establish a new recharge activity. This is the minimum language that is required. Units are free to add language to better fit their needs; however, the information provided is required for General Accounting to set up the activity within the Quali system and language that is required to comply with campus policy.

[Insert date]

To: Department/Unit

Re: Establishment of a New Recharge Activity

This is to inform you that the [Insert Dean/VC Office] has approved the establishment of the [Insert recharge activity name] and the supporting recharge rates (see attached list) effective [Insert effective date].

Per the Policy and Procedure Manual 340-25, offices of the deans/vice chancellors have the authority to approve the establishment of recharge activities where there is no mandated good or service, the unit responsible for the activity is not the only reasonable provider and the activity will not generate more than \$50,000 in annual recharge revenue from federal contracts and grants.

Per policy, units managing recharge activities must publish a schedule of their approved rate for customers and prospective customers to view. The schedule of rates must be published online or be readily available at the unit's office.

This letter is being forwarded to General Accounting along with the completed UC Fund Request form(s) to establish UC fund number(s) as needed for the activity.

Sincerely,

[Dean/VC Authorized Personnel]

cc: Jim Seibert - General Accounting
Nancy Wilson - Budget and Institutional Analysis

Appendix II: Sample approval letter for modifying an activity

NOTE: This is an example of an approval letter to modify an existing recharge activity. This is the minimum that is required. Units are free to add language to better fit their needs.

[Insert date]

To: Department/Unit

Re: Modification to an Existing Recharge Activity

This is to inform you that the [Insert Dean/VC Office] has approved the modifications to the recharge rates associated with the [Insert recharge activity name] (see attached list) effective [Insert effective date]. The UC Fund Number for the activity is [Insert UC Fund Number].

Per the Policy and Procedure Manual 340-25, in some instances, offices of the deans/vice chancellors have the authority to approve modifications to recharge activities. The modifications approved by [this office] are as follows:

- Created a new rate that is consistent with an existing pricing rationale*
- Created a new rate that is not consistent with an existing pricing rationale for an activity that is non-mandatory and generates less than \$50,000 in annual federal recharge revenue*
- Changed a pricing rationale for an activity that is non-mandatory and generates less than \$50,000 in federal recharge revenue
- Increased a rate consistent with the annual budget planning guidelines
- Increased a rate inconsistent with the annual budget planning guidelines for an activity that is non-mandatory and generates less than \$50,000 in annual federal recharge revenue
- Decreased a rate

* If your rate requires a new fund you must complete the UC Fund Request form and submit to General Accounting.

Reminders:

The rates approved in this proposal do not include the non-university differential (NUD). The NUD rate must be assessed on rates charged to non-university customers.

Per policy, units managing recharge activities must publish a schedule of their approved rate for customers and prospective customers to view. The schedule of rates must be published online or be readily available at the unit's office.

Sincerely,

[Dean/VC Authorized Personnel]

Appendix III: UC Fund Request Form

UC Fund Request Form

for Self-Supporting Units

complete the following informational items and send form to General Accounting:

1. Fiscal Officer's name: _____
2. DaFIS Organization Code : _____
3. Description of Activity (*used for account setup*): _____
4. Anticipated annual revenue: \$ _____
5. Anticipated annual revenue from federal contracts and grants: \$ _____
6. What units will you be charging (circle all that apply):
Campus (chart 3), Hospital (chart H), School of Medicine (chart S) or ANR (chart L)
Note: needed to setup the unique object code
7. Customers (circle one): Internal only, External only, Internal and External.
Note: If external customers are include the department is reminded that the rates approved in this proposal do not include the non-university differential (NUD). The NUD must be assessed on rates charged to non-university customers.
8. Is depreciation for equipment included in any of the rates for this activity? Yes No
If yes, the depreciation schedule included in the proposal must accompany this letter.
9. Is a reserve for improvement (RFI) included in any of the rates for this activity? Yes No
If yes, the department is reminded that RFIs are only permitted for activities that generate less than 15% of their revenue from federal contracts and grants.

For General Accounting to complete and send copy to unit

DaFIS UC Fund Number for:

Operating Account: _____
Equipment Depreciation (Reserve and Renewal): _____
Reserve for Improvement (RFI): _____

Unique Object Code: _____

General Accounting: _____

Signed by/Date