



## Recharge Revenue Materiality Threshold

**DRAFT**

<b>Responsible Official:</b>	Vice Chancellor for Finance and Administration and Chief Financial Officer
<b>Responsible Office:</b>	Financial Planning and Analysis
<b>Issuance Date:</b>	<b>TBD</b>
<b>Effective Date:</b>	<b>TBD</b>
<b>Summary:</b>	Establishes the Recharge revenue Materiality Threshold needed to become either a new Rate-Based Unit or to remain a Rate-Based Unit.
<b>Scope:</b>	All campus constituencies currently operating a Rate-Based Unit or intending to establish a new Rate-Based Unit.

<b>Contact:</b>	Bianca Khanona, Associate Vice Chancellor, Financial Planning and Analysis
<b>Email:</b>	bkhanona@ucmerced.edu
<b>Phone:</b>	(209) 819-6683

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**I. REFERENCES AND RESOURCES**

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Guidelines/Resources

- [UC Merced Financial Planning and Analysis Website](#)

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**II. POLICY SUMMARY & SCOPE**

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This Policy establishes a revenue Materiality Threshold of \$20,000 for both the establishment of new Rate-Based Units and for the maintenance of existing Rate-Based Units. This Policy aims to assist the campus in managing resources, both human and physical, efficiently by clearly defining Recharge activities and setting a Materiality Threshold.

The fractional full time equivalent/labor effort associated with Recharge operations review includes but is not limited to compliance review, rate calculation, financial position including surplus/deficit review, collaborating with the Campuswide Recharge

Committee for annual approvals, and the regular ongoing financial management is significant; thus, the cost of managing low-value Rate-Based Units can outweigh the benefit and revenue they provide.

The Policy applies to all campus constituents who currently operate Rate-Based Units and those who intend to establish new Rate-Based Units.

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### III. DEFINITIONS

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**Recharge:** A Recharge is the cost charged to a university department for specific goods or services provided by another university department.

**Materiality Threshold:** For this Policy, this term is defined as the expected minimum amount of revenue earned.

**Recharge Unit:** Departments that provide ongoing services/goods to other campus departments and recover the cost of offering these services/goods. Recharge Units fall into two categories:

**Rate-Based Unit:** A unit that uses an approved rate by the Campuswide Recharge Committee to recover its cost of providing services/goods.

**Cost Recovery Unit:** A unit that recovers its actual costs based on reimbursement instead of using an approved Campuswide Recharge Committee rate.

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### IV. POLICY TEXT

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This Policy applies to existing Rate-Based Units and newly proposed Rate-Based Units.

1. Existing Rate-Based Units need to sustain an average revenue of \$20,000 or more per year (averaged over a two-year period) to remain an approved Rate-Based Unit at UC Merced. If a unit does not sustain revenue of at least \$20,000, it will lose its Rate-Based Unit status. If a Recharge Unit anticipates that it will not make the revenue threshold, it should initiate a discussion with senior management as units are expected to replace the funding formerly earned by their low-earning revenue structures with their own available budget/other funding sources. In essence, these units will become fully subsidized. Units may also submit additional funding requests that will be reviewed under the campus's annual Budget Call process. The Recharge Unit will inform the Campuswide Recharge Committee by submitting a request to cease its Recharge operations.
2. An aspiring Rate-Based Unit can submit a proposal if it can demonstrate the capacity to create at least \$20,000 in revenue during its first two years of

operations (Years 1 and 2). A proposed unit must show a continued demand of \$20,000 in revenue for year 3 and beyond. The formal proposal for a Rate-Based Unit shall be submitted in the third (3rd) year of revenue generation. As an example, if a proposed Rate-Based Unit can prove that it earns \$20,000 in revenue for Fiscal Year ending 2022 and 2023, it can submit a proposal during the FY24 Rate-Based Unit budget call.

3. A rate is not always necessary to obtain revenue for goods/services. An aspiring Rate-Based Unit can earn revenue for its goods/services by obtaining reimbursement from its clients (internal or external) based on actual expenses. Financial and Accounting Services has financial processes in place for an aspiring Rate-Based Unit to become a Cost Recovery Unit, i.e., allowing the aspiring unit to be reimbursed based on its actual costs. This cost-recovery mechanism can facilitate a unit's rate approval as it will help the unit provide sufficient financial records/documentation to meet the revenue materiality revenue threshold by Year 3 of its operations.

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## **V. PROCEDURES**

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1. Recharge Budget calls for new Recharge activity proposals (for new services currently not being provided) are issued in September/October of the fiscal year with a December deadline. All aspiring Rate-Based Units meeting the revenue Materiality Threshold can submit a Recharge rate proposal to be reviewed by the Campuswide Recharge Committee.
2. Recharge Budget calls for existing Recharge Units will be issued in December/January with a March deadline. Existing Rate-Based Units are reviewed by Financial Planning and Analysis during the budget call to determine if they are impacted by the revenue materiality threshold. If the Recharge Unit is required to be sunset, the unit may submit requests to discontinue Recharge activities or delete rates during this budget call timeline. These units have the option to become fully subsidized by means other than becoming a Rate-Based Unit.

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## **VI. RESPONSIBILITIES**

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### **Financial Planning and Analysis**

- Issue Recharge budget calls and review proposals for aspiring Rate-Based Units to ensure the revenue Materiality Threshold has been met during their first two years of operations.
- Issue budget calls for existing Rate-Based Units to ensure they continue to meet the revenue Materiality Threshold.

- Discontinue Rate-Based Units that have not met the revenue Materiality Threshold over a two-year period.

### **Campuswide Recharge Committee**

- Review proposed Recharge rates and approve as appropriate.

### **Recharge Unit Finance Officers**

- Review Recharge operations for existing and aspiring Recharge Units and discuss potential operational impacts of the revenue Materiality Threshold with Financial Planning and Analysis.

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## **VII. POLICY REVISION HISTORY**

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<b>Date</b>	<b>Action/Summary of Changes</b>
TBD	Policy issued