



Recharge Revenue Materiality Threshold

Responsible Official:	Vice Chancellor for Finance and Administration and Chief Financial Officer
Responsible Office:	Financial Planning and Analysis
Issuance Date:	12/12/2023
Effective Date:	12/12/2023
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Summary:	Establishes the Recharge revenue Materiality Threshold needed to become either a new Rate-Based Unit or to remain a Rate-Based Unit.
Scope:	All campus constituencies currently operating a Rate-Based Unit or intending to establish a new Rate-Based Unit.

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I. REFERENCES AND RESOURCES

Guidelines/Resources

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

II. SUMMARY AND SCOPE

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. An external audit firm was hired by UCOP to review UCM's Recharge practices and policies and the audit report recommended the development of this Policy aimed to assist the campus in managing resources, both human and physical, efficiently by clearly defining Recharge activities and setting a Materiality Threshold. Without the implementation of this Policy, the university risks Recharge Units being established that do not translate into creating new revenue for the university.

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.

III. DEFINITIONS

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 three categories:

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

Proposed Rate-Based Unit: A unit that would like to use an approved rate 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.

IV. POLICY TEXT

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 three-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. A Proposed Rate-Based Unit can submit a proposal if it can demonstrate the capacity to create at least \$20,000 in revenue during its first three years of operations. The formal proposal for a Rate-Based Unit shall be submitted in the fourth year of revenue generation. A proposed unit must show a continued demand of \$20,000 in revenue for year 4 and beyond. As an example, if a Proposed Rate-Based Unit can prove that it earns \$20,000 in revenue for Fiscal Year ending 2022-2024, it can submit a proposal during the FY25 Rate-Based Unit budget call.
3. A rate is not always necessary to obtain revenue for goods/services. A unit may share the cost of a good or service by splitting the cost of actual expenses and requesting reimbursement of actual expenses incurred; effectively making them a Cost Recovery Unit. Activities of a CRU are locally managed. Financial and Accounting Services can be consulted so these units can appropriately share costs campuswide 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. CRU activities are provided a 3-year timeline to obtain formal approval by the Campuswide Recharge Committee to become a formally approved Rate-Based Unit.

V. PROCEDURES

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 Proposed 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.

VI. RESPONSIBILITIES

Financial Planning and Analysis

- Issue Recharge budget calls and review proposals for Proposed 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 proposed Recharge Units and discuss potential operational impacts of the revenue Materiality Threshold with Financial Planning and Analysis.

VII. REVISION HISTORY

Date	Action/Summary of Changes
12/12/2023	Original Policy Issued