

SIO Differential Income Overhead Rate Policy (Effective July 1, 2012)

In response to the 2012 UCSD campus policy that established minimum differential income rates for recharge and other self-supporting activities, the Vice Chancellor of Marine Sciences (VCMS) has established 23% as the minimum overhead recovery rate for SIO individuals or activities that do business with external non-University customers. At this time, any overhead generated in excess of this basic 23% level can be retained by the PI/ division/ activity.

In 2012, the campus implemented a policy that established 16% as the base differential overhead rate for self-supporting activities. This represents *the required minimum* to be remitted to central campus when outside revenues are generated.¹ This base rate of 16% is derived from the previous formula and is roughly equivalent to the 35% campus share of the standard 45% total differential income rate that has been remitted to campus in the past.

Similarly, SIO has established a VCMS base rate of 7%, which is the required minimum to be remitted to the Director's Office.² This amount is also derived from the previous formula and is roughly equivalent to 15% of the standard 45% rate.³

The "standard" campus rate for external sales and services remains at 45%, however this new policy provides flexibility for activities to adjust their overhead rates depending on their circumstances. If an activity chooses to forego their portion of the differential overhead, they can charge the minimum rate of 23%. However, in cases where the market will bear a higher rate, they can charge more and retain any amount generated above the 23% combined campus and VCMS portions.

As a reminder, in all cases Scripps personnel may not begin work until a Service Agreement has been signed or Purchase Order terms and conditions have been negotiated.

¹ Any requests for waiver of the 16% base rate require review and approval by the campus Recharge Rate Review Committee.

² Any requests for waiver of the 7% SIO base rate require review and approval by the SIO Executive Committee.

³ See below examples for the breakdown of percentages for the SIO MarFac/MPL 18% rate.

Examples of the distribution of revenue for various scenarios:

- 1) On campus standard differential income rate of 45% (or higher)**
 - 16% to central campus administration
 - 7% to SIO administration
 - 22% (or remaining balance) retained by the generating PI/unit/activity

- 2) Minimum differential income rate of 23% (no PI/unit/activity portion)**
 - 16% to central campus administration
 - 7% to SIO administration

- 3) MarFac/MPL differential income rate of 18%**
 - 6% to central campus administration
 - 2% to SIO administration
 - 2% to SIO Pier Replacement Fund
 - 8% retained by the generating PI/unit/activity

(See Attachment 1 for a more detailed description of the calculations and transfer information)

Background

University policy requires that recharge and other self-supporting activities charge the full cost of conducting business when selling to external non-University customers. Recharge activities exist primarily to service internal department or campus needs, but they may also generate revenue by engaging in external sales. Service agreements are a large and growing segment of this type of campus activity. While service agreements are normally issued by approved recharge activities for ongoing or continuous sales of goods and/or services, they are also issued by non-recharge activities. Recharge and other self supporting activities are supported by campus administrative offices and are generally housed in campus funded and maintained space, so do not pay directly for their own facilities costs like debt service, building maintenance, and utilities. Thus, as University policy requires, and prudent business practice necessitates, an appropriate level of campus overhead should be incorporated into the total price charged to external customers. This is accomplished by adding a differential income overhead rate to the direct cost charged, with some portion remitted back to the campus.

UCSD's differential income overhead rate is derived from the heavily scrutinized sponsored rate negotiated with the Department of Health and Human Services (DHHS), less four components; equipment depreciation is excluded as it is already included in direct cost recharge rates; and sponsored project administration, student services administration, and libraries are excluded because they are mostly deemed to not directly benefit external sales.

Historically, one of the issues associated with the differential income overhead rate was the complexity of the calculations required to internally distribute the income, such that 35% be remitted to central campus (effectively ~16%), and the remaining 65% retained by the cognizant Vice Chancellor / Department generating the revenue (effectively 29%). This allocation model proved to be difficult to follow, implement and explain to faculty and departmental business officers. (Note: SIO internal policy was to remit 15% of the 45% (effectively 7%) to the Director's Office and the balance remained within the unit that generated the revenue).

In response to the above concerns, in late 2011, the ASSA Task Group, inclusive of all Vice Chancellor area Financial Officers, was reconvened to review the campus differential income overhead rate, and if necessary, make recommendations for changes. The group discussions were generally focused on increasing the level of Vice Chancellor flexibility in price setting, while establishing a base threshold below which overhead rate cannot fall below, increasing unit incentives for generating revenue, transparency in funds flow and simplifying the allocation model.

Ultimately, the group decided on (and the campus implemented) a policy that includes a base rate of 16% that represents the portion to be remitted to central campus. This was derived from the 35% campus share of the 45% on-campus overhead rate and rounded for simplicity. This base rate is adjusted to 8% for off-campus activity.

Attachment 1 – Sample Calculations

Differential Income Calculation Sample for Standard On Campus Rate of 45%

- (1) Activity Charging Standard On Campus Differential Income Rate of 45%
 - (A) The total differential income consists of the central administration portion (16%), SIO administration portion (7%) and departmental portion (22% or remainder).
 - (B) The DIRECT cost total is \$100 (all costs are subject to differential overhead).
 - (C) The TOTAL cost calculation is $\$100 \times 1.45 = \145 (\$100 direct + \$45 overhead)
 - (D) The overhead distribution calculation: ($\$100 \times 0.16 = \16) is the central admin portion, ($\$100 \times 0.07 = \7) is SIO admin portion, and ($\$100 \times 0.22 = \22) is the department's portion.

- \$16 is remitted to the central administration index RMGDIFI-75451A-660439-661000

- \$7 is remitted to SIO administration index VCMDIFI-75112A -436460-436030

- \$22 is retained in the activity's differential income index-fund-org-prog

Transfers are done using account 720702, FB journal number and FB08 rule class.

Differential Income Calculation Sample for 23% Rate (Activities NOT Collecting the Departmental Portion)

- (2) Activity Charging Only the Central Admin and SIO Portion
 - (A) The total differential income consists of the central administration portion (16%) and the SIO administration portion (7%)
 - (B) The DIRECT cost total is \$100 (all costs are subject to differential overhead).
 - (C) The TOTAL cost calculation is $\$100 \times 1.23 = \123 (\$100 direct + \$23 overhead)
 - (D) The overhead distribution calculation: ($\$100 \times 0.16 = \16) is the central admin portion, and ($\$100 \times 0.07 = \7) is SIO admin portion.

- \$16 is remitted to the central administration index RMGDIFI-75451A-660439-661000

- \$7 is remitted to SIO administration index VCMDIFI-75112A -436460-436030

Transfers are done using account 720702, FB journal number and FB08 rule class.

Differential Income Calculation Sample for Activities Using the revised MPL/Ship Rate of 18%

- (3) Activity Charging the MPL/Ship Rate of 18% - the 2% increase in rate was approved to help fund the pier replacement, so 2% goes to the VCMS Pier Replacement Fund.

Note: The approved campus/SIO rates of 16%/7% translate to 6%/2% in this scenario.

- (A) The total differential income consists of the central administration portion (6%), SIO administration portion (2%), pier replacement fund (2%) and departmental portion (8%)
- (B) The DIRECT cost total is \$100 (all costs are subject to differential overhead).
- (C) The TOTAL cost calculation is $\$100 \times 1.18 = \118 (\$100 direct + \$18 overhead)
- (D) The overhead distribution calculation: ($\$100 \times 0.6 = \6) is the central admin portion, ($\$100 \times 0.02 = \2) is SIO admin portion, ($\$100 \times 0.02 = \2) is the Pier Replacement Fund portion and ($\$100 \times 0.08 = \8) is the department's portion.

- \$6 is remitted to the central administration index RMGDIFI-75451A-660439-661000

- \$2 is remitted to SIO administration index VCMDIFI-75112A -436460-436030

- \$2 is remitted to SIO Pier Replacement index VCMPIER-75112A-436460-436030

- \$2 is retained in the activity's differential income index-fund-org-prog

Transfers are done using account 720702, FB journal number and FB08 rule class.