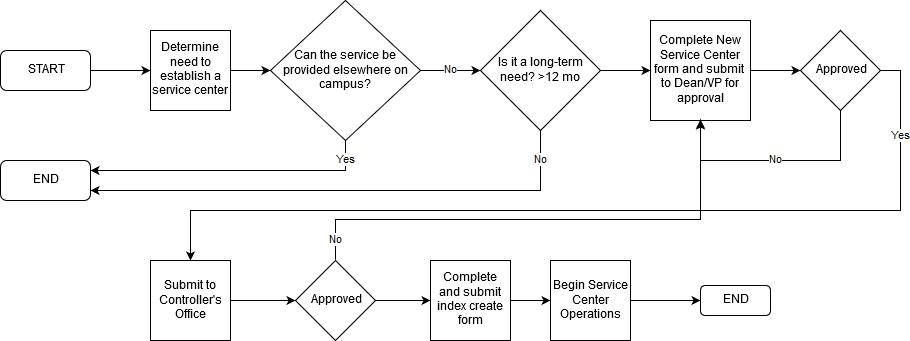
**Service Center Procedures**

## Establishment of New Service Centers

* 1. Establishment and financial management is a significant under taking so prior to establishing a new service center, the following items should be considered:
     1. Availability - Is this service available elsewhere on campus, or at a nearby affiliated hospital or other academic institution?
     2. Duration - Is the need for this service short-term or long-term (generally greater than a year)?
     3. Funding - What will be the funding sources for the new Academic Service Center? If federally funded then the service center income may be considered program income.
     4. Customer base - What portion of users will be internal vs. external? Excessive external customers may have UBIT implications.
     5. Additional items to consider considered:
        + Facility Overview - What is the name and purpose of Center, how does it support the university’s mission, and what are the products or services to be offered?
        + Responsibility - Who will be responsible for managing the Service Center?
        + Employees - How will the service center be staffed?
        + Access - Will the Service Center provide access to all investigators?
        + Billing - Who will be responsible for billing for the Service Center?
        + Equipment - What capital equipment/resources will be needed?
        + Space - Where will the Service Center be located? (building, room #)
        + Workflow - What is the planned scheduling process?
        + Marketing - Are there any plans to promote the services to be provided?
  2. Creation of the service center will require Request for New Service Center Form and supporting documentation. The request must be approved by the dean or department head of the school or department where the center will be located. A new service center index is established by completing a request for a new Banner Index and sending the request to the university controller’s office. The following information should be attached to the request:
     1. A Financial Business Plan - A description of the services to be provided and the users of the services and the reasons why the services can best be provided by an internal service center, rather than by an external service provider.
     2. Rate Calculation - A billing rate calculation and, where possible, a comparison of the internal rates with the rates charged by external service providers. New service centers should project sales volume and set their rate to cover the projected operating expenses
     3. Budget Document - A projection of the costs and utilization of the services.
     4. Operating Policies and Procedures – which will cover Billing Processes, documentation requirements, and on-going monitoring process.
  3. **Service Center Creation Flowchart**



**Allowable Direct Costs**

The expense budget should include all costs for operating the academic service center including administrative expenses directly associated with operations of the facility. Expense categories include:

* + 1. **Salaries, wages and fringe benefits,** for direct personnel and administrative staff whose efforts are directly related to the service center’s activity or management should be budgeted and included in the rate calculation. If an individual works on more than one activity, the costs associated with that individual must be allocated to the activities based on the effort spent. Likewise, administrative costs benefiting more than one service center activity must also be allocated. Effort reporting, a time study, or another equivalent method may be used to determine the appropriate allocation
    2. **Materials and supplies,** needed to operate the service center are allowable and should be included in the rate calculation. These expenses must be included in the financial analysis for the fiscal year in which they are used. If excess materials or supplies are purchased during the fiscal year, the service center should exclude these costs from the rate calculation. If material, the inventory balance may be booked as part of the year end closing process. Please contact the university controller’s office for assistance with recording and adjusting inventory balances.
    3. **Maintenance and repair, including equipment maintenance agreements**
    4. **Rentals and leases, including operating equipment leases,** and other professional services are allowable and should be included in the rate calculation for the fiscal year in which they were incurred. The only exception is that capital leases cannot be charged directly to service centers.
    5. **Travel & conferences,** related directly to and necessary for the operation of the service center (i.e. conferences, meetings, local travel) are allowable.
    6. **Purchased services/professional fees**
    7. **Interest paid on externally debt-funded equipment used by the service center**
    8. **Other Direct Costs,** not identified above are allowable to the extent that they relate directly to and are necessary for the operation of the service center and are not specifically unallowable under
    9. **Indirect Costs,** (Facilities and Administration, or F&A) and additional fees recovered from external users of service centers is allowable.
    10. **Un-allowable Costs,** Unallowable costs must be excluded from the budget as well as the service center rate calculation and may not be charged to Service Center users. For a complete list of unallowable costs, refer to OMB Uniform Guidance (§200.420 through §200.475).

## 

## Rate Development

Local managing units are responsible for ensuring that service center rates comply with the guidance in the Academic Service Center policy and this manual, and are submitted annually to the university’s controller’s office for review and approval by September 30th. Rates should be calculated using the Service Center Annual Rate Proposal Form.

New service centers should project sales volume and set their rate to cover the projected operating expenses. Startup costs do not have to be recovered the first year, they may be amortized over 2-3 years or provided as subsidy by a department.

**General Rate Calculation Steps:**

A service center rate is the cost per billable unit of goods or services sold in order to recover the expenses of the service center and achieve a breakeven financial position. A billable unit is the measurement used to identify the specific goods and/or services provided by a service center. The use of an appropriate billable unit is essential to ensuring that users are charged only their fair share of the actual costs of operating the service center. Examples of billable units include:

* Labor hours or machine hours
* Unit cost
* Number of samples or tests performed
* Any other unit of measurement appropriate to the type of activity

Rates are based on budgeted projections of operating expenses, including a carryforward surplus/deficit, divided by projected levels of activity or revenue.

For example, a microscope costs approximately $100,000 per year to operate and has an estimated usage (activity level) of 1,500 hours during the year. The resulting hourly rate would be calculated as $100,000/1500 hours = $66.67 per hour. A researcher using the microscope for 4 hours would then be charged $266.68, or 4 x $66.67.

Pricing that is contingent upon types or levels of usage should be developed for each discrete type of service, and there should be no cross subsidies between services. See Pricing of Multiple Services below.

* 1. **Breakeven Expectation**

The break-even period is a reasonable period of time over which cumulative revenue for a service or product equals cumulative expenses. Service center billing rates should be calculated to recover the aggregate cost of a service/product over a defined period (normally one year).

Some service centers require a long breakeven period due to startup costs or volume fluctuations. Initial multiyear breakeven periods of up to five years are allowable. Requests for a multi-year break-even period must be included in the “New Service Center Request Form” and be approved by the university controller’s office.

* 1. **Surpluses or Deficits**

It is not possible to predict what rate(s) will achieve an actual annual breakeven financial position. For this reason, as defined in the Academic Service Center Policy, a threshold of +/- 25% of total operating expenses is reasonable and allows for unbudgeted variances in volume or expenses. Sometimes, it may be necessary to adjust rates at mid-year or at other times during the annual cycle.

Monthly and fiscal mid-year reviews of service center accounts are recommended to determine compliance with the annual +/- 25% surplus/deficit requirement. If there is an operating surplus in excess of 25% at midyear, the budget should be reviewed to determine whether a mid-year rate reduction is necessary. If there is an operating deficit in excess of 25% at midyear and the service center is not subsidized, the budget should be reviewed to determine whether a mid- year rate increase is necessary. All rate changes must be documented, approved by the university controller’s office, and dated for audit purposes.

* 1. **Carryforward of Prior Year Gain/Loss**

Fiscal year-end reviews of service center accounts must also be performed to determine compliance with the cumulative surplus/deficit requirement. A cumulative gain (surplus) or loss (deficit) from prior years over the 25% annual threshold should be factored into future rate calculations. When this produces material fluctuations in the subsequent year’s calculations, it is allowable to spread the carryforward over multiple years.

* 1. **Pricing of Multiple Services**

Service centers offering multiple services should calculate appropriate rates for each service. The goal is to create a billing rate that does not cross-subsidize between services or user groups.

Blending the costs and revenues of various services is not allowed if the component costs of each service is different because blending the costs would result in the lower cost service users subsidizing the higher cost service users. For example:

|  |  |  |
| --- | --- | --- |
|  | Service A – Tech assisted Sorting | Service B – Self-Service Sorting |
| Costs | Service unit = 1 hour  $cost /hour | |
| Senior Tech compensation | $60 | $0 |
| Supplies | $10 | $10 |
| Service Contract | $15 | $15 |
| Total costs per service unit | $85 | $25 |

In this example, the fees for Service A and B could not be blended to arrive at a fee of $55/hour for both services because the costs associated with Service A are different from those associated with Service B; one requires the skill of a senior tech and the other does not. The users of Service B cannot be charged more than $25/hour in order to decrease costs for the users of Service A; i.e., the fees for Service B may not cross subsidize the fees for Service A.

* 1. **Rate Consistency**

Rates can be set based on hours, units, or any other metric that is the closest approximation for utilization of resources to produce the good or service. Rates established by service centers must be non-discriminatory, and all users of the facility must be billed for services. Non-discriminatory means all internal users are charged at same rate(s) for the same level of services rendered or products purchased. Also, separate rates for Federal and non-Federal customers is not allowed.

If a service center offers any discounted rates (e.g. volume discount) that rate must be available to all internal users. External users may be charged a billing rate higher than the rate charged to internal users due to the addition of university F&A and other add-on fees to cover incremental expenses related to external users. It is not necessary to itemize add-on fees for external users on the invoice however, the service center must maintain supporting documentation that identifies the components of the rates charged.

* 1. **Internal versus External Users and Rates**
     1. **Users:** Purchasers of service center services can be internal, affiliated, or external to the university.
        + **Internal users** – Investigators within the university who pay for goods or services are billed through internal billings as described in Section 5, Billing.
        + **Affiliated users** – Academic research investigators at affiliated hospitals and other academic institutions within the Commonwealth of Virginia. These users are billed using internal rates.
        + **External users/commercial customers** – An entity or person that is legally separate from VCU that typically purchases goods or services for reasons of convenience, quality, or uniqueness of goods or services offered. Examples include collaborators at other institutions outside of the Commonwealth of Virginia and investigators at commercial research labs. The external user distinction is very important to the university for Unrelated Business income tax (UBIT), sales tax, F&A (indirect) cost rate, and Organized Research policy purposes. External user arrangements must be approved by the Dean and the Controller’s Office. If contracts are executed they must be approved by legal counsel.

**Tax Issues Relating to Service Centers**

* + 1. **Private Business Use** - All service centers should be aware of the potential for private business use (PBU). PBU is actual or beneficial use of tax-exempt bond financed property by any person or organization other than a Section 501(c) (3) organization such as the borrower, or an affiliate, pursuing its exempt purposes or (2) a state or local government. Any direct or indirect use of tax-exempt bond financed property at VCU, other than by VCU (or another non-profit) for its exempt purposes, may result in PBU.

All management contracts, naming rights agreements, lease agreements, or any other agreement for the use of space by a non-governmental entity (i.e., space used by an entity or individual other than by the university), in which tax-exempt bonds were issued and remain outstanding for a building, require notice to the Treasurer’s Office for review of any potential PBU. Applied research sponsored by the federal government or a private business may also result in private business use, and potential PBU activity is monitored by the Treasurer's Office. Please contact the Treasury Department at [TRESREPORT@vcu.edu](mailto:TRESREPORT@vcu.edu) for assistance with potential PBU issues.

* + 1. **Unrelated Business Income Tax (UBIT)** - A business activity generates unrelated business income subject to taxation if the following three conditions are met:

It is a trade or business,

It is regularly carried on, and

It is not substantially related to furthering the tax-exempt purpose of the university

A trade or business includes the selling of goods or services with the intention of making a profit. An activity is regularly carried on if it occurs with a frequency and continuity, similar to what a commercial entity would do if it performed the same activity. An activity is substantially related to furthering the exempt purpose of the organization if the activity contributes importantly to accomplishing the organization's purpose, other than for the sake of producing the income itself. If external users of the service centers are being charged a rate that is higher than the university’s aggregate cost of the goods and services provided, there may be a liability for unrelated business income tax. Under most circumstances the services centers will not meet the three tests for UBIT, however if profits are made over an extended period of time, the tax department may be required to report this income to the IRS and the university may have a UBIT liability. Please contact the university Controller’s office for more information or with any potential concerns

* + 1. **Sales Tax** - Sales of goods to external users are generally subject to sales tax. Sales tax, equivalent to the sales tax rate times the sale price, should be collected from the customer in the state of Virginia. If the external user has a valid sales tax exemption certificate for Virginia, the certificate must be collected from the external party and sales tax need not be collected or charged. Internal users are not charged sales tax on items purchased for university use. Please contact the university controller’s office for more information or with any potential concerns

**Review of Service Centers**

* 1. The office of cost analysis in the controller’s office will oversee implementation of these procedures.
  2. The office of cost analysis will make periodic reviews of the financial operations of service centers. These reviews will focus on the development of billing rates, the handling of surpluses and deficits, and the adequacy of the service center’s record keeping procedures. Any major problems that arise in these reviews will be discussed with the school or unit responsible for management of the service center.
  3. Every odd fiscal year (i.e., FY15, FY17), the office of cost analysis will send established and potential service centers a questionnaire inquiring about the center’s general function, current rate schedule, indexes set up in the university’s Banner system, etc.

**Dissolution of Service Centers**

A service center may be closed if it is deemed to be no longer necessary and/or viable. Approval is required from senior leadership within the business unit prior to closing an Academic Service Center. Other close-out procedures for the closing service center include:

* + - Notify the university controller’s office
    - Work with the university controller’s office to close all accounts
    - Work with the university controller’s office to determine the disposition of any service center equipment
    - All purchase order commitments should be closed out
    - Ensure all pending invoices have been paid prior to closure of the service center
    - Service center staff’s salaries need to be reassigned to another cost center
    - The service center surplus’s or deficit must be brought to zero

If operation of a service center has ceased and it is to be closed, the service center’s surplus or deficit balance must be brought to zero as part of the closing process. A deficit indicates an under-billing of costs. The cost center responsible for the operation of the service center must fund the deficit. A surplus indicates an over-billing of costs, and it may be necessary to analyze the center’s users to determine the extent to which federally-funded research projects were charged. If it is determined that a full analysis would not be cost effective, the entire surplus would be liquidated,