Policy:
It is the policy of the California Institute of Technology (Caltech) to periodically review and adjust as appropriate the rates charged by service centers. The purpose of this review is to ensure that:

- Service center charges are supported, calculated correctly and appropriate.
- The Federal Government is not being charged for more than the cost of services provided, or subsidizing other users.

This policy has been established to ensure compliance with Federal regulations.

Definition:
A service center is defined as an organizational unit that provides a specific service or product, or a group of services or products, to users principally within the Caltech academic community. A service center recovers the cost of its operations through charges to its users.

Caltech requires that service centers with annual operating expenses or revenues of $100,000 or more be subject to the formal review and verification process described by this policy.

Procedures:

Formal Review
The Cost Studies Group (part of the Office of Financial Services) will work with Service Center Directors to review and, if necessary, adjust rates biennially. Service Center rates should be based on the following breakeven calculation (see Appendix A for examples):

\[
\text{Budgeted Expenses} +/\text{Prior Year Under/Over Recoveries}^1 \\
\text{Budgeted Usage Base}
\]

Budgeted Expenses
The following expenses may be included in the breakeven calculation:

- **Direct Personnel**
  Salaries, wages and fringe benefits of all personnel directly related to service center activity (e.g., lab technicians or machine operators). If an individual works on more than one activity, the costs associated with that individual should be allocated to those activities on a reasonable basis.

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1 The amount carried forward from the prior period(s). See Appendix A for an example of how under / over recovery is calculated
SERVICE CENTERS

- **Administrative Staff**
  Salaries, wages and fringe benefits of administrative staff in direct support or management of a service center. The costs of administration staff benefiting more than one service center activity should be allocated to the benefiting services on a reasonable basis.

- **Materials and Supplies**
  Materials and supplies required to operate a service center.

- **Equipment Depreciation**
  Depreciation on equipment purchased with non-federal funds. Note that the purchase price of capital equipment may not be recovered through service center rates.\(^2\)

- **Other Expenses**
  Other expenses required for the operation of the service center including, but not limited to, equipment maintenance costs, rental and service contracts, equipment operating leases, and professional services.

In general, the following budgeted expenses should **not** be included in the breakeven calculation:

- **Facilities & Administrative (F&A)/Indirect Costs**
  Such costs include campus provided operations and maintenance services, building depreciation and general administration costs.

- **Unallowable Expenses**
  Unallowable expenses include bad debt expense, internal interest, alcohol. Refer to Section J, OMB Circular A-21 for a list of unallowable expenses.

*Budgeted Usage Base*
The budgeted usage base is the volume of work expected to be performed, expressed in units such as labor hours, machine hours, CPU time or any other reasonable measurement. A record/log of all users should be established and maintained by the service center.

*External Users:*
A service centers’ primary function is to share resources and provide services for internal users. Situations may arise, however, where the nature of a service center's products or services and other factors justify allowing external users limited access to these products or services. A service center may charge a higher rate to an external user for the same type of service provided to internal users.

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\(^2\) Equipment is defined as an item with a purchase price of $5,000 or more and a useful life of at least two years.
Roles and Responsibilities:

It is the responsibility of the:

Service Center Director\(^3\) to:

- Ensure compliance with the Service Center policy
- Ensure the personnel under their direction, engaged in the financial administration of service centers that meet the threshold set out in this policy, are familiar with the Service Center policy
- Coordinate the rate review process with the Cost Studies Group

Cost Studies to:

- Assist Service Center Directors calculate breakeven rates
- Verify that rates charged to federal users do not include an element of profit or subsidization of other users.
- Advise Service Center Directors when rates should be adjusted

Other Information

Service Centers That Provide Multiple Services
Where a service center provides different types of services to different users, separate billing rates should be established for each service that represents a significant activity within the service center. The costs, revenues, surpluses and deficits should also be separately identified for each service. The surplus or deficit related to each service should be carried forward as an adjustment to the billing rate for that service in the following period.

Non-Discriminatory Rates
A service center may elect to not charge a group of users for services (e.g. students) or to charge a discounted rate\(^4\). However, when determining the surplus/deficit for the period and when calculating future breakeven rates the full amount of revenue related to their use of the services must be imputed into the calculation. This imputation is necessary to avoid the Federal Government subsidizing other users.

Intentional Subsidies
In some instances, the Institute, or a division/center, may elect to subsidize the overall operations of a service center, either by charging billing rates that are intended to be lower than the calculated breakeven rate or by not making adjustments to future rates for prior year deficits. Service center deficits caused by intentional subsidies must be clearly identified. Since subsidies result in a loss of funds to the Institute, they should be provided only when there is a sound programmatic reason.

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\(^3\) This may include a Principal Investigator or Division/Center Administrator.

\(^4\) This requirement does not apply to alternative pricing structures related to the timeliness or quality of services. Pricing structures based on time-of-day, volume discounts, turn-around time, etc. are acceptable, provided that they have a sound management basis and do not result in recovering more than the costs of providing the services.
Auxiliary Services
Auxiliary services are not subject to this policy. An auxiliary is a self-supporting entity that exists principally to furnish goods or services to students, alumni, or faculty and staff acting in a personal capacity, and charges a fee for the use of goods or services.
The following are examples of the method of calculating a breakeven service center rate. When a service center is initially established, the rate will be based on budgeted/projected revenues, expenses, and usage. However, after a service center is set up, the rate should be reviewed biennially and should incorporate budgeted/projected, as well as actual revenues, expenses and usage.

**Establishing a Service Center Rate:**

An electron microscope costs approximately $100,000 per year to operate (total allowable costs) and has an estimated activity level of 1,500 hours per year. This would result in a breakeven charge out rate as follows:

\[
\frac{\$100,000}{1,500 \text{ hours}} = \$67 \text{ per hour}
\]

If a researcher uses the microscope for four hours on a sponsored project, his or her award should be charged \$268 (i.e. 4 x \$67).

**On-Going Service Center Rate:**

The rates submitted for approval for fiscal year commencing October 1, 2004, would be based on FY 2005 projected volume and expenses plus/minus under/over recoveries carried forward from prior fiscal years.

Examples 1 and 2 below are both based on a budget of \$230,000 of revenues and 2,000 hours of usage for the year.

**Example 1:**

<table>
<thead>
<tr>
<th>FY 2003 Actual</th>
<th>FY 2005 Budgeted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$230,000</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>(220,000)</td>
</tr>
<tr>
<td>Surplus</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

Less P/Y Surplus

\[
\text{Surplus} = \frac{\$10,000}{2,000 \text{ hours}} = \$5 \text{ per hour}
\]

The rate charged will be \$240,000/2,000 hours = \$120/hour.

**Example 2:**

<table>
<thead>
<tr>
<th>FY 2003 Actual</th>
<th>FY 2005 Budgeted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>$230,000</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>(250,000)</td>
</tr>
<tr>
<td>Deficit</td>
<td>$20,000</td>
</tr>
</tbody>
</table>

Plus P/Y Deficit

\[
\text{Deficit} = \frac{\$20,000}{2,000 \text{ hours}} = \$10 \text{ per hour}
\]

The rate charged will be \$270,000/2,000 hours = \$135/hour.