

## Establishing Cost Rates

The following is adapted from NCURA materials and Washington University St. Louis

### Calculating Service Center Rates

- Introduction: <https://youtu.be/BcII-p03Fgg>
- Calculating Part 1 <https://youtu.be/AcnIns65sko>
- Calculating Part 2 <https://youtu.be/-7U1PvewMSo>

1. Identify all services provided
  - a. Possible Considerations
    - i. Use of specialized equipment
    - ii. Testing of samples
    - iii. Testing of materials
    - iv. Consultation
    - v. Development of media
      1. Brochures
      2. Augmented reality experiences
      3. Web sites
    - vi. Use of computers
    - vii. Prototype development services
2. Identify users
  - a. Internal
    - i. Students
    - ii. Faculty
    - iii. Centers
  - b. External
    - i. State
    - ii. Federal
    - iii. Industry
    - iv. Individuals
3. Identify cost elements
  - a. Fixed Costs
    - i. Not contingent of volume
    - ii. Are predictable with a high degree of certainty
    - iii. Fixed costs should utilize historical information/data and knowledge of changes projected for the coming period
  - b. Variable Costs:
    - i. Costs that change in proportion to volume or activity
    - ii. Costs/obligations that can only be estimated based on analysis of historical and prospective volume activity/data
    - iii. Variable costs should be estimated based on projected volumes for the coming period
  - c. Both fixed and variable cost estimates will benefit from performing a variance analysis between the prior fiscal year budget and prior fiscal year actual costs.
    - i. Include review of the assumptions made and comparing them to actual outcomes.

4. Determine direct costs associated with each service, regardless of how it is funded
  - a. Salaries and wages
  - b. Fringe Benefits
  - c. Depreciation expense
    - i. CAUTION: don't include depreciation expense for equipment that is federally-funded
  - d. Variable costs
    - i. Consumable Supplies
      1. Costs incurred for the purchase of supplies, materials, and fabricated parts to be used or consumed in the process of providing services or products. Examples include chemicals, media, lab supplies, data storage devices, etc.
    - ii. Other Expenses
      1. Laboratory fees; technical procedure fees; shipping; data storage; sample storage; gases; equipment maintenance charges such as calibration costs, repairs and certifications; contractual or license fees
5. Identify other costs associated with center operations
  - a. Salaries and wages
  - b. Fringe benefits
  - c. Utilities
  - d. Space
  - e. Repairs and Maintenance
    - i. Are other outside services needed?
      1. Calibration
      2. Certifications
6. Identify and segregate unallowable costs in accordance with the cost principles
  - a. Examples include (but not limited to)
    - i. Alcoholic Beverages
    - ii. Airfare in excess of coach
    - iii. Bad debt or uncollected billings
    - iv. Capital Equipment Purchase (depreciation is OK on non-fed equipment)
    - v. Donations, gifts and contributions
    - vi. Internal Interest
    - vii. Entertainment
    - viii. Fines or penalties
    - ix. Memberships
    - x. Unrelated food and beverage expenses
7. Develop a reasonable method to assign operating costs to each service
  - a. Use the measurement which allocates costs equitably among all users
    - i. By test?
      1. Number of samples?
      2. Test performed?
    - ii. By hour?
      1. Labor Hours?
      2. Machine Hours?
    - iii. What are your unit costs?

8. Estimate future usage for each service to establish the rate base (billable units)
  - a. Look historically to determine
    - i. Number of tests
    - ii. Number of clients served
    - iii. Amount of supplies consumed
    - iv. Number of labor hours
9. Calculate cost-based rate for each service (measurable units)
  - a. If users are billed for actual usage, a measurable unit must be identified
    - i. Examples of measurable units
      1. Daily Rate
        - a. Fixed rate for a full 'day' of service
        - b. Daily rate for using equipment
        - c. Daily rate for use of facilities
        - d. Daily rate for consultation
      2. Labor Hours
        - a. Hours that personnel are performing service
        - b. Hours that technicians spend fixing/maintaining
        - c. Hours spent to fabricate item
      3. Machine Hours | The timeframe an instrument, device, specialized computer, etc. is used
        - a. Use of specialized microscope
        - b. Use of testing / analysis equipment
        - c. Use of specialized VR equipment
      4. Consultation Hours | The time spent on the specific issue/project
        - a. Hours spent analyzing data
        - b. Hours spent meeting with users
        - c. Hours spent training users
      5. Page rates
        - a. Number of pages produced for user
        - b. Number of pages generated
      6. Volume rates
        - a. Rates based on measure of liquids
          - i. Per milliliters
      7. Computing rates
        - a. Rates based on amount of CPU/GPU/Rendering required for test or project
      8. Test rates
    - b. The unit must be something that can be measured, quantified and tracked in a reasonably accurate manner
    - c. There may be different measurable units for different types of users and classes of products/services provided
10. Apply the indirect costs to be included in billing rate
11. Determine the rate that will be charged

Keep in mind:

- Rates should recover no more than the cost of the good or service (unless unit is auxiliary to the university)
- Rates must breakeven over time
  - Review and adjust at least every two years
- Rates don't discriminate between users, especially those paying with federal funds
- Surplus should not be used to fund unrelated activities
- The published price list must be maintained and include
  - Schedule of rates
  - The established methodology used to arrive at the rates
- Avoid use of a "flat user fee" unrelated to actual usage
- Are there any subsidies provided?
  - Don't confound with gifts/donations/contributions
    - Impacts the F&A
- Rates may include the depreciation expense (non federal equipment) only, not the full cost of the equipment