DEVELOPING A SERVICE RATE

The Essentials

Before a service rate can be developed you need to make sure that you can establish a service center.

Departments and researchers use a variety of products and/or services to perform their activities or projects. When products or services are not readily available from external sources, or cannot be obtained conveniently and efficiently, an internal service center is often established.

Internal service centers (fund type 3E in Banner) primarily serve University departments, units, and federally and non-federally funded sponsored projects. The service center functions as a non-profit business, also known as a self-supporting fund.

In order to create an internal (3E) service center, the service should meet the following criteria:

- **Goods/services are provided on an ongoing basis**
- **Users must be primarily within the University (includes sponsored projects)**
- **Value must be added (i.e., assigning staff or supplies necessary to provide the service)**
- **Revenue or expenses are at least $3,000 each year**

3E Service Centers are **NOT** established to:

- **Generate a profit**
- **Compete with the general public/industry**
- **Provide service to the general public as its primary function**
- **Build a surplus intended for any purpose or discretionary purpose, other than paying for the costs incurred to provide the service or good**

Examples of internal (3E) service centers are as follows:

If you determine that your service meets all of the criteria, then a self-supporting fund is established by working with University Accounting and Financial Reporting (UAFR).

**Getting Started**

After you have determined that you need a service center and want to charge for your services, then the next step is to perform a rate calculation. As part of this process, you will determine the costs/expenditures for providing the service (step 1) and figure the number of goods or services that will be sold (step 2), which are then used to determine the calculated rates (step 3), as illustrated below.

Expenditures

Examples of typical expenses included in the rate calculation are as follows:

- Salaries and wages
- Materials and supplies
- Repairs and maintenance costs
- Service contracts (e.g., maintenance agreement)
- Depreciation expense of capitalized equipment used in the service

The following items **CANNOT** be included in the service rate calculation:

- Advertising, except for employee and subject recruitment
- Alcohol
- Bad debts
- Expenses not related to the service being provided
- Capital equipment purchases (only depreciation is included in the rates, not the full cost)
- Reserves or contingencies
**Goods/Services Sold (Base)**

- **Base** = Measurable units of output for the different types and classes of products or services
- The measurable unit may be labor, machine time, miles, samples, products, etc.
- The usage basis for the service or good includes all users of the service or good

**Setting Service Rates**

- Rates should be charged based on actual use of the services
- Formal rate calculations must be performed at least once every two years
- Rates must be supported by cost calculations based on a year of actual historical expenditures and usage (e.g., normally based on fiscal year end data)
- Rates cannot be based on generating a specific amount of revenue
- The service should break-even over time and accumulated profit/loss incorporated into future rate calculations
- Estimated rates are generally used only for the first year of operation
- Each unit is responsible for the management of its stores and service activities, including the establishment and documentation for each service rate
- Rate calculation and report templates are available on Government Costing’s OBFS website, on the right hand site of the page: Service Activities - Urbana-Champaign

Thinking about expenditures and users/services/products can help you create the business plan you need for your service center. Remember....service centers are created to **break-even** over time and should include costs directly related to the service.

**Additional Resources**

- Section 22 Self-Supporting/Revenue Generating Activities - Service and Storeroom Activities
- Government Costing’s Website
- The Service Activities Resource Page contains information about specific 3E service activity topics, as well as Job Aids & Training Materials that show step-by-step procedures for completing a rate calculation template using the Business Objects/Web Intelligence report data (once a fund is set up)
- Self-paced web-based training is available via the Service Activity Overview Training Course
- UAFR offers self-supporting funds training, including GL105 Introduction to Self-Supporting Funds and GL205 Managing Self-Supporting Funds
- Talk with the Business Manager for your unit. They are a great resource to assist with setting up a service center and calculating service rates
- Government Costing is available to answer questions and provide training