Question:

If STIP is computed as a part of a system-wide pool, why does each campus have a different STIP rate?

Answer:

The system-wide STIP pool has a rate of return, which is the same for all campuses, and every campus has its own STIP distribution rate, which is used to distribute income to individual funds. The two rate types serve different purposes at different stages in the STIP distribution process. Neither rate type determines the income available; on the contrary, the rates are derived from the income results. The methodology behind each rate type is chosen for optimal practicality and economy of reporting and analysis, without unduly sacrificing accuracy or fairness.

The system-wide pool rate is the overall rate of return on the average daily balances in all financial control funds. These relate to funds on deposit rather than the fund numbers used on the campuses. The bank pays interest on the daily balances in the pool, so the campus-by-campus balances are known. It is not possible, on the other hand, to say that one campus’ money earned a good return, while some other campus’ investment did not perform as well. Therefore, the preliminary amount of STIP income for every campus is a simple pro rata share of the total, determined by multiplying the individual campus’ average daily balance (the investment) by the system-wide STIP rate (the real rate of return on the pool).

Hospitals receive their STIP income at this stage, at the system-wide STIP rate. They have additional adjustments and costs, such as administrative cost recovery, but those are dealt with in a separate process.

Once the campus STIP totals are known, it is necessary to distribute the income to the fund level, as well as to recover the cost of investing the funds (bank fees and other expenses incurred to administer the STIP process). Some individual fund balances will be positive while others will be negative, so a rate is needed to distribute the income equitably. However, it is not practical or economical to reconcile the daily balances for every campus down to the fund level, as individual fund balances are reported by the campuses only at month-end. A new rate is needed.

As a proxy for average daily balances, the average month-end balances are used to determine individual campus distribution rates. Adjustments are made to align the month-end balances with the income available (the “equity adjustment”). The amount of income does not change, only the balances used to calculate the distribution rate at each campus. The administrative cost recovery of 1.5% of income (or 15 basis points) is also applied at this time.

Now the campus distribution rate can be calculated. The net income available for distribution to the campus (pro rata share minus hospital share and administrative cost recovery) is divided by the campus’ average monthly balance (modified by the equity
adjustment). As both the numerator and the denominator have changed, the campus distribution rate is different from the system-wide rate. The amount of variance will depend on the degree to which the month-end balances differ from the average daily balances, which will be slightly different for every campus. Therefore every campus will have a slightly different STIP distribution rate.

In Step 5 of the STIP process, some income is moved between fund groups via a set of adjustments that are outlined in Section 5 of the STIP Report. However, the campus distribution rate is used to allocate the campus’ STIP income to individual funds, no matter what their fund group may be.

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