DATE: May 4, 2015

TO: Deans, Department Heads, Directors of Graduate Studies, Graduate Program Coordinators and Department Business Managers

FROM: Andrew C. Comrie, Senior Vice President for Academic Affairs and Provost Gregg Goldman, Senior Vice President for Business Affairs and CFO Kimberly Espy, Senior Vice President for Research

RE: Proposed ERE Rates for FY2016

XC: Anne Weaver Hart, President President’s Cabinet

The University of Arizona is committed to providing employees with important benefits such as health insurance, retirement plans, worker’s compensation, liability insurance and more. These benefits enable us to maintain a competitive position in the workforce and among higher education institutions. As you will appreciate, maintaining stable rates for these employee-related expenses (ERE) is challenging given increasing costs.

In an effort to minimize rate changes and create a greater sense of predictability, our team of financial officers has developed a new approach to ERE rates that incorporates recommendations from the Graduate ERE Committee and others. These proposed rates have been submitted to the University’s federal cognizant agency, Cost Allocation Services (CAS) for approval. These rates may be used for internal planning purposes but **may not be used for sponsored proposal submissions until they are approved.**

If accepted by CAS, the ERE rate pool reorganization would be effective for FY16.

The proposed rate schedule is attached. Three main points require further comment:

- **Direct Bill Graduate Tuition Remission** - As recommended in a 2013 report from the Graduate ERE Committee, graduate student tuition will no longer be incorporated into ERE rates. Instead, a direct bill model will be used. This means that actual tuition costs will be billed to the employing unit. For more details please review the "FY2016 ERE Rate Change FAQ’s" at: http://www.fso.arizona.edu/financial-management/ere-faq-fy2016

- **A Simplified ERE Pool Structure** – Historically, the University has utilized an ERE rate structure that categorized individuals by employee classification. In the
FY2016 proposal, several employee classifications will be combined. This will assist in maintaining stable rates and assist us to ensure compliance with the Affordable Care Act, Arizona Department of Administration requirements and other benefit compliance obligations.

- **The Inclusion of Termination Leave into the ERE Rates** – Currently, vacation payouts to terminating employees are charged to the fund sources in effect at the time of termination. In the interest of charging these costs in a more equitable fashion, the University is availing itself of an option permitted by Office of Management and Budgets (OMB) Uniform Guidance. This guidance permits the University to charge the vacation payouts to an ERE pool and recover the expense through ERE rates. However, since ERE rates operate on a fiscal year basis, this methodology will not take effect until July 1, 2015. Vacation payout prior to that date will be charged in accordance with existing (FY2015) practices.

The Budget Office is evaluating the effects of direct bill for graduate teaching assistant tuition remission and the simplification of the ERE pool structure to determine the budget allocations needed to minimize the budget impact to responsibility center units due to these structural changes. Plans for budget reallocations are being developed and will be reviewed with constituent groups for comment over the next several weeks before being finalized.

We will continue to evaluate the ERE Rates pool structure, as well as other variables for future rates development to ensure the method utilized is efficient and effective.

Please contact Duc Ma at 621-3220 or mad2@email.arizona.edu for any questions regarding the proposed FY16 rates. Questions regarding the sponsored grant and contract graduate ERE subsidy program should be directed to Caroline Garcia at 621-3900 or cmgarcia@email.arizona.edu.
<table>
<thead>
<tr>
<th>ERE Group</th>
<th>2015-2016 Proposed Rates</th>
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<tbody>
<tr>
<td><strong>UA Employees</strong></td>
<td>34.2%</td>
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<tr>
<td><strong>Student Employees</strong></td>
<td>3.5%</td>
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<tr>
<td><strong>Graduate Assistants</strong></td>
<td>13.9%</td>
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