United States Department of Agriculture

Stakeholder Briefing

US Department of Agriculture
Animal and Plant Health Inspection Service

Proposed Adjustments to the Agricultural Quarantine and Inspection (AQI) Program User Fees

January 13, 2015

For Official Use Only

Kevin Shea
Administrator
Animal and Plant Health Inspection Service
United States Department of Agriculture

John Wagner
Acting Assistant Commissioner, Office of Field Operations
U.S. Customs and Border Protection
Department of Homeland Security

Osama El-Lissy
Deputy Administrator
Animal and Plant Health Inspection Service
United States Department of Agriculture

Presentation Objective and Agenda

Objective: Review the results of the AQI program cost analysis and the proposed fee adjustments.

Topics

- AQI program overview
- Costing methodology used to determine fees
- ABC model design and considerations
- Using cost to inform the fee-setting process
- Proposed fees
- Summary of public comments
- Next steps

AQI Program

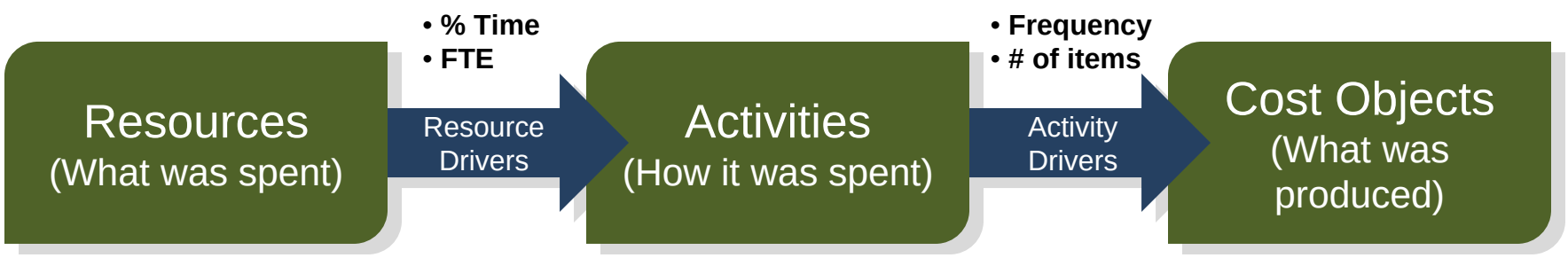
- Addresses concerns of unintentional introductions of foreign animal diseases, plant pests and pathogens, and intentional acts of agroterrorism
- Accomplished through risk assessment and analysis, pest identification, treatment, policy, as well as inspections of international passengers, commercial vessels, trucks, aircraft and railcars at U.S. ports of entry
- APHIS and the Department of Homeland Security's Customs and Border Protection (CBP)
- CBP does most port-of-entry inspections
- APHIS is the U.S. Government's executive agency for the AQI program
  - Section 2509(a) of the Food, Agriculture, Conservation, and Trade (FACT) Act of 1990 (21 U.S.C. 136a) authorizes APHIS to collect user fees for certain AQI services

Applying Advanced Accounting Methods

- In 2009, APHIS determined a more advanced method for setting fees was needed
  - Comply with Federal fee setting guidance
  - Employ best practices
- APHIS engaged Grant Thornton, an international accounting firm, to conduct a comprehensive study of the costs accrued by APHIS and CBP to deliver AQI services
- Used Activity Based Costing (ABC) to ensure that fees reflected the cost of AQI activities
- Cost accounting methods used previously were not as accurate
  - Fee pricing points were incorrect
  - Some fee payers paid too little; others paid too much
- Identified other government-incurred costs that could be recovered through fees
- The ABC method ensures that the payer pays for the cost of services rendered
  - One fee area does not subsidize others
  - Fees are equitable and based on the services to which fee payers are subject
  - Those that require AQI services pay those costs

ABC Methodology Baseline Cost Information

- **Perform full cost analysis** of AQI services including direct, indirect, overhead, inter-agency and imputed costs recorded in the APHIS and CBP financial statements
- Uses cause-and-effect relationships for more accurate costing
- Widely accepted methodology in public and private sector; recognized by FASAB as an appropriate methodology for managerial cost accounting
- Used FY2010 data as baseline and updated for FY2011
- Model produces unit cost data for user fee setting and performance analysis; provides "what-if" capabilities for analyzing resource scenarios



Model Design Considerations

- National-level model
  - rigorous and defensible
  - flexible to support diverse information needs
  - repeatable
  - transparent in tracing costs across dimensions
- Requirements driven
  - Primary purpose is fee setting
  - Considered other management uses
- Balanced to work with available data

Cost Projections

- Started with baseline cost model resources and added
  - Pay and inflation through FY2016
  - Costs for post - FY2010 CBP initiatives, including journeyman upgrade
  - Costs for post - FY2010 APHIS AQI initiatives
- Activity and output structure same as baseline cost model
- Driver relationships remain constant
- Output (workload) changes per industry and other sources
- Fees are set based on actual workload and projected inflation.
  - Allows for a single rate without adjustments through 2016

Cost Implications for Fee Setting

- Projected total AQI program costs:
  - FY2014: $948.9 million
  - FY2015: $957.6 million
  - FY2016: $966.4 million
- Need to recover costs to the Federal government associated with fee services and have fee revenue from each fee service cover the associated costs of providing services to which fee payers are subject
- Consider establishing new fees
- Use GAO criteria to assess options
  - Efficiency
  - Equity
  - Revenue adequacy
  - Administrative burden

Inflation (new)

Fee	2011 Actual Count	2012 Actual Count	Expected Changes (Annual)	2013	2014	2015	2016
Air passenger	78,901,506	77,255,476	3.60%	80,036,673	82,917,993	85,903,041	88,995,551
Sea passenger	12,931,271	13,532,465	3.15%	13,958,738	14,398,438	14,851,989	15,319,826
Rail passenger	276,722	276,855	-	276,855	276,855	276,855	276,855
Bus passenger	5,222,786	5,318,382	-1.69%	5,228,501	5,140,140	5,053,271	4,967,871
POV passenger	169,834,015	175,428,545	0.76%	176,761,802	178,105,192	179,458,791	180,822,678
Pedestrian	40,609,235	41,375,736	-3.49%	39,931,723	38,538,106	37,193,126	35,895,086
Commercial aircraft	700,644	719,251	3.60%	745,144	771,969	799,760	828,551
Commercial maritime cargo vessel	101,794	113,727	3.15%	117,309	121,005	124,816	128,748
Commercial truck	10,348,791	10,664,770	3.83%	11,073,231	11,497,335	11,937,683	12,394,897
Commercial cargo railcar	2,912,210	3,230,167	3.83%	3,353,882	3,482,336	3,615,710	3,754,191
Private aircraft	121,221	116,240	-	116,240	116,240	116,240	116,240
Private maritime vessel	80,529	80,949	-	80,949	80,949	80,949	80,949
Treatments	29,713	38,517	5.36%	40,582	42,757	45,048	47,463

Proposed Fees (existing)

Fee Service Activity	Current	Proposed
Air passenger	$ 5	$ 4
Commercial aircraft	70.75	225
Commercial maritime cargo vessel	496	825
Commercial truck	5.25	8
Commercial truck transponder	105	320
Commercial cargo railcar	7.75	2

Proposed Fees (new)

Fee Service Activity	Current	Proposed
Sea passenger	no fee	$ 2
Treatments	no fee	375

- The Grant Thornton study provided information that enabled APHIS and CBP leaders to identify new fees
- Sea Passenger fee would be based on tickets sold, much like the design of the airline passenger fee
- The treatment fee is based on the AQI activity related to the treatment undertaken, not the volume of goods being treated

Change in Fees

Fee Service Activity	Proposed	Rate of Change
Air passenger	$ 4	-20%
Commercial aircraft	$ 225	218%
Commercial maritime cargo vessel	$ 825	71%
Commercial truck	$ 8	52%
Commercial truck transponder	$ 320	205%
Commercial cargo railcar	$ 2	-74%

Used Activity Based Costing over previous method of fee calculations

- Know the actual cost of activities related to fees

Many years since the fees have been adjusted

- Increased costs to address increased threats
- Cumulative effect of inflation over the years

Fees are set and will not have annual adjustments unless an emergency arises

- Allows for better cost planning for industry

Properly aligns fees with the costs of the services to which fee payers are subject

Assured that there is no cross-subsidization of fees

Summary of Public Comments

- Received 248 formal comments on the proposed rule
- Concerns regarding the treatment fee
  - Amount
  - Transparency
  - Who would be subject to pay
- Concerns about the increase of the commercial truck fee
- Concerns about the increase of the commercial truck transponder fee
- Opposition to fee increases due to potential economic impact
- Concerns that overtime fees are being counted twice in the user fees

Next Steps

- APHIS and CBP have reviewed and considered all of the comments
- The final rule is in clearance
  - Departmental clearance
  - OMB review (up to 90 days)
  - Publication of final rule
    - Assumes OMB does not require changes
  - Fees go into effect 60 days after final rule is published

Questions?