BACKGROUND STATEMENT ON USER CHARGES

Many Covernment agencies provide special services which benefit identifiable recipients. Agencies

- issue permits and licenses,
- operate the airways and inland waterways,
- assist highway construction,
- rent out space in some Government buildings,
- lease mineral and grazing lands,
- conduct testing and inspection services,
- give emergency medical care in Government hospitals to persons for whom the Government has no direct responsibility,
- sell publications, and
- provide a great number of other services.

Many of these services and products are provided for a fee or charge. Some of the charges equal the cost. Some are less. In some cases the fee was once equal to or near the cost but it has not been raised as costs have moved upward (for example, patent fees recovered 93% of the cost in 1933, but now recover only 28%). For some services there has been no charge.

Wherever the service is provided free or at less than cost, the general taxpayer is subsidizing the recipient of the service.

Most user charges are set administratively. Some are set by statute. In some cases the statute permits administrative discretion within defined limits. In some cases a long tradition of free services has brought us to the point where a statute might be needed to clearly establish the right of the agency to charge fees.

Center for Transportation No one proposes that fees and charges be used as a device to make profits for the Federal Government. However, adequate fees would provide a saving to the taxpayer in the long run.

History of user charges efforts. The current efforts to improve the user charges situation date from the Truman Administration. Executive branch activities were matched by interest in the Government Operations and Appropriations Committees. In 1951 Congress enacted a statement of principle as Title V of the Independent Offices Appropriation Act of 1952.

"It is the sense of the Congress that any work, service, publication, report, document, benefit, privilege, authority, use, franchise, license, permit, certificate, registration, or similar thing of value or utility performed, furnished, provided, granted, prepared, or issued by any Federal agency (including wholly owned Government corporations as defined in the Government Corporation Control Act of 1945) to or for any person (including groups, associations, organizations, partnerships, corporations, or businesses), except those engaged in the transaction of official business of the Government, shall be selfsustaining to the full extent possible, and the head of each Federal agency is authorized by regulation (which, in the case of agencies in the executive branch, shall be as uniform as practicable and subject to such policies as the President may prescribe) to prescribe therefor such fee, charge, or price, if any, as he shall determine, in case none exists, or redetermine, in case of an existing one, to be fair and equitable taking into consideration direct and indirect cost to the Government, value to the recipient, public policy or interest served, and other pertinent facts, and any amount so determined or redetermined shall be collected and paid into the Treasury as miscellaneous receipts: Provided, That nothing contained in this section shall repeal or modify existing statutes prohibiting the collection, fixing the amount, or directing the disposition of any fee, charge or price: Provided further, That nothing contained in this section shall repeal or modify existing statutes prescribing bases for calculation of any fee, charge or price, but this proviso shall not restrict the redetermination or recalculation in accordance with the prescribed bases of the amount of any such fee, charge or price."

> Center for Transportation

The Bureau of the Budget has coordinated the efforts of the executive branch in this regard. Its instructions are found in Circular No. A-25.

Progress has been made as evidenced by the last published annual report (attached). More recent information which will soon appear in a forthcoming report, indicates further progress was made in 1964; agencies report

- 60 new charges (either for a new service or for an old service which formerly was free);
- 130 increases in charges; and
- 26 decreases in charges (which would be appropriate where costs have been cut).

In general, however, increases in pay levels of Government employees in recent years have increased the cost of providing services and should have been matched by an increase in charges to recipients.

Agencies and substantive committees of the Congress are often reluctant to see appropriate user charges imposed, because of their special relationship to a particular clientele group. There is still some vigorous opposition in Congress to rather simple charges by some regulatory agencies, but this appears to be a minority view (not related however to political parties).

Current policy and status. The current policy has been made known on several occasions by President Johnson. A most important one was the Budget Message of January 25, 1965, which contains several paragraphs on user charges for transportation, followed by these words:

Center for Transportation "I will continue to press for other user charges in Government programs where benefits are provided to specific, identifiable individuals and businesses. Fairness to all taxpayers demands that those who enjoy special benefits should bear a greater share of the costs. Legislation is needed for some of the charges, such as patent and meat inspection fees. In other instances, equitable user charges will be instituted through administrative action."

We currently have before Congress, or are preparing with the cooperation of the agencies, ten legislative proposals. Others may be worked out subsequently as they appear to be necessary. For the first time in five years the Bureau of the Budget collected within recent months a fresh evaluation of the status of user charges and a listing of possibilities for new and increased fees.

It appears that there are more than 200 cases, now identified between the Bureau of the Budget and the agencies, where administrative action to impose new or raise old user charges would seem to be appropriate. Further conversation with the agencies may reduce this number slightly. Further study by the agencies might increase it.

The amounts involved in the legislative proposals are significant. Proposals for transportation charges, which are basically in the form of taxes, amount to \$439 million for the next fiscal year. Proposals such as those for patent fees, meat and poultry inspection, and other such services should provide an additional \$98 million in 1966. The budget assumes that we will get such legislation.

The many administrative possibilities would not produce large revenues. In many cases the number of recipients is small or the cost is relatively small. They might produce \$20 to \$25 million at current levels of activity.

Transportation

Recommendation: It is suggested that the President invite the attention of the Cabinet to the Administration's policy and ask them:

- To help move the proposed legislation through.
- To get to work promptly on the cases identified between them and the Bureau of the Budget for administrative action.
- To look for still other possible user charges.
- To report to the President by April 30 on their accomplishments under this directive.



Bureau of the Budget rebruary 10, 1965 proposed to increase the payroll tax from the current 7.25% to 8.5% on January 1, 1966, instead of 8.25% as required by existing law. Of the increase, 0.6% will be devoted to meeting the requirements of the new hospital insurance program. The changes will also provide funds for increased benefit payments under the old-age, survivors, and disability insurance programs. Increases will also be requested for the Railroad Retirement Board trust fund.

Federal unemployment tax.—Legislation will be proposed to increase the payroll tax under the Federal-State Employment Security system, effective on calendar year 1966 wages. The increased tax rate is designed to strengthen the administration and to finance proposed improvements in the system, including a longer period of eligibility for unemployment benefits for workers permanently attached to the labor force. Federal trust fund receipts under this program are not expected to show the effects of the new tax rate until fiscal year 1967 because receipts are not deposited with the Treasury until after the calendar year ends.

User charges.—Legislation authorizing additional user charges and extending others is recommended, in keeping with the policy that a greater share of the costs of certain programs which provide special benefits or privileges should be borne by identifiable primary beneficiaries.

Commercial and general aviation users of the Federal airways system would be expected to contribute directly to defraying a larger portion of its costs. For general aviation, a tax of 4 cents per gallon on gasoline and jet fuels is recommended in place of the current 2 cents per gallon tax on gasoline alone. Jet fuels purchased by commercial aviation would be taxed at 2 cents per gallon, and the same rate of taxation would be continued for gasoline used in commercial aviation. The recommendations also include a 2% tax on air freight and continuation of the 5% tax on air passenger travel on a permanent basis. These taxes would be deposited in the general fund, including the gasoline tax paid by airways users that now goes into the highway trust fund.

Institution of a 2 cents per gallon fuel tax is proposed for vessels using the inland waterways system.

The self-financed Federal-aid interstate highway program is facing rising construction costs. To provide increased receipts for the highway trust fund, legislation will be proposed to increase taxes on highway users. These tax rate increases together with an extension of all highway trust fund taxes beyond the present October 1, 1972, expiration date will permit the interstate program to continue at a reasonable rate of progress.

Congress is requested to authorize new or revised user charge schedules to cover the costs of several specific services available from the Federal Government. A revised fee schedule for the Patent Office, for example, would bring it closer to a self-sustaining pattern of operations.

For several programs, the proposed user charges will be employed directly to offset the expenditures needed for their operation. Activities included within this group are: (1) inspection of meat and poultry, grading of wheat, cotton and tobacco, and inspection of warehouses; (2) border inspection of private vessels and aircraft that require overtime work; and (3) certain technical assistance provided by the Soil Conservation Service.

Revolving funds.—Legislation is requested to create revolving funds for the Rural Electrification Administration and three power administrations—Bonneville, Southeastern, and Southwestern. With authority to operate as revolving funds, the agencies would be able to finance their current operations and necessary capital outlays with collections on outstanding loans and revenues from power sales subject to control through the regular appropriations process. Enactment of this legislation will reduce, equally, miscellaneous receipts of the Treasury and expenditures by the agencies; it will not affect the budgetary surplus or deficit.

ESTIMATED EFFECT OF PROPOSED LEGISLATION ON RECEIPTS FROM THE PUBLIC

[In millions

Proposal	Fiscal year 1966	Full year effect
Administrative budget receipts:		
Extension of current excise tax rates: 1		
Alcoholic beverages	\$461	\$301
Cigarettes	265	245
Passenger automobiles	480	525
Parts and accessories for automobiles	. 75	89
General telephone service	475	630
Subtotal, extension of current excise tax rates	1,756	1,790
Total of proposed excise tax reductions and repeals, not reflected in		
detailed estimates	-1,500	-1,750

¹ These estimates reflect extension of current tax rates beyond June 30, 1965. Details do not show possible effect of proposed excise tax reductions and repeals which are presented only in total

ESTIMATED EFFECT OF PROPOSED LEGISLATION ON RECEIPTS FROM THE PUBLIC—Continued

[In millions]

Proposal	Fiscal year 1966	Full year effect
Administrative budget receipts—Continued		
Transportation user charge proposals:		!
Make permanent 5% tax on air passenger transportation	116	140
Tax transportation of air freight at 2%		5
Tax fuels used in general aviation at 4 cents per gallon		13
Tax fuels used in commercial aviation at 2 cents per gallon	I	82
Tax fuel used on inland waterways at 2 cents per gallon	I	8
Subtotal, transportation user charge proposals	220	248
Other user charges affecting budget receipts:		
Increase Patent Office fees	15	15
All other	5	. 5
Subtotal, other user charge proposals	20	20
Rural Electrification Administration revolving fund	—177	-177
Power Administration revolving funds	—124	-124
Other revolving funds	-20	-20
Subtotal, revolving funds	-321	-321
Total, administrative budget proposals	175	-13
Trust fund receipts:		
Highway trust fund:		
Increase certain taxes paid by highway users	_ 219	247
Transfer aviation gasoline receipts to general fund	_19	-14
Subtotal, highway trust fund proposals	200	233
Social insurance trust funds:		
Increase taxable wage base and payroll tax:	,	
Old-age, survivors, and disability insurance and hospital insurance		
for the elderly programs	522	2,350
Railroad retirement program	. 4	7
Subtotal, social insurance trust fund proposals	. 526	2,357
Total, trust fund proposals	726	2,590
Total, proposed legislation	901	2,577

<u>USER</u> CHARGES

annual progress report

EXECUTIVE OFFICE OF THE PRESIDENT BUREAU OF THE BUDGET

JUNE 1964



EXECUTIVE OFFICE OF THE PRESIDENT BUREAU OF THE BUDGET Washington, D. C., 20503

USER CHARGES - PROGRESS REPORT - FISCAL YEAR 1963

Summary

A "user charges" program is conducted in accordance with the policy that where a service (or privilege) provides special benefits to an identifiable recipient above and beyond those which accrue to the public at large, a charge should be imposed to recover the cost to the Federal Government of rendering that service, and where federally owned resources or property are leased or sold, a fair market value should be obtained. This policy does not, however, apply where special benefits are conferred because the Government has adopted a program specifically to discharge a distinct responsibility to the beneficiary, as in the case of certain veterans benefits. The Bureau of the Budget is responsible for coordinating the application and interpretation of the user charges policy among the agencies of the executive branch. This is the fifth annual report on the progress of the user charges program.

The Congress set the framework for the conduct of this program by enacting Title V of the Independent Offices Appropriation Act of 1952 (5 U.S.C. 140) wherein it is provided that "work, service, publication, report, document, benefit, privilege, authority, use, franchise, license, permit, certificate, registration, or similar thing of value or utility performed, furnished, provided, granted, prepared, or issued by any Federal agency...shall be self-sustaining to the full extent possible." Congress further authorized the heads of Federal agencies to establish such fees and to revise existing ones where such action did not conflict with existing law. During the fiscal year 1963, administrative action was taken in 185 cases. Of these actions, 158 imposed charges where none had previously existed or raised existing fees to make them more commensurate with the cost of providing special services or to obtain fair market value for the sale or lease of federal property; the remaining 27 actions adjusted fees downward to reflect, for the most part, lower costs or market values.

In addition there have been or will be submitted for consideration of the Congress at least 8 proposals for legislation, where such action is necessary to remove statutory prohibitions or limitations on the establishment or revision of fees and charges.



USER CHARGES

The conduct of the user charges program is predicated upon the premise that except where such benefits are the principal purpose of the Government program (e.g., as in veterans compensation for disability), those who receive special identifiable benefits, services, or other things of value directly from the operation of Federal activities, should pay a fair share of the Government's cost of providing the services. Thus, fees and charges are being established for special services and fair market prices for the sale or lease of federally-owned property. This policy provides relief to the general taxpayer and protects his investment in federally-owned property.

The basic framework for the user charges program of the Federal Government is set forth in Title V of the Independent Offices Appropriation Act of 1952 (5 U.S.C. 140), and was a result of growing congressional concern over the amounts of general revenues used to finance programs providing special services. Title V provides that:

"It is the sense of the Congress that any work, service, publication, report, document, benefit, privilege, authority, use, franchise, license, permit, certificate, registration, or similar thing of value or utility performed, furnished, provided, granted, prepared, or issued by any Federal agency (including wholly owned Government corporations as defined in the Government Corporation Control Act of 1945) to or for any person (including groups, associations, organizations, partnerships, corporations, or businesses), except those engaged in the transaction of official business of the Government, shall be self-sustaining to the full extent possible, and the head of each Federal agency is authorized by regulation (which, in the case of agencies in the executive branch, shall be uniform as practicable and subject to such policies as the President may prescribe) to prescribe therefore such fee, charge, or price, if any, as he shall determine, in case none exists, or redetermine, in the case of existing one, to be fair and equitable taking into consideration direct and indirect cost to the Government, value to the recipient, public policy or interest served, and other pertinent facts, and any amount so determined or redetermined shall be collected and paid into the Treasury as miscellaneous receipts; Provided, That nothing contained in this section shall repeal or modify existing statutes prohibiting the collection, fixing the amount, or directing the disposition of any fee, charge or price: Provided further, That nothing contained in this section shall repeal or modify existing statutes prescribing bases for calculation of any fee, charge or price, but this proviso shall not restrict the redetermination of recalculation in accordance with the prescribed bases of the amount of any such fee. charge or price.

In addition to the congressional concern, many of the Presidential budget messages since 1948 have contained statements on the appropriateness of establishing or increasing fees and charges for special services rendered by the Government. The 1965 budget message reemphasizes this position by

stating that "Many Federal Government programs furnish specific identifiable benefits to the individuals and businesses using them. Equity to all taxpayers demands that those who enjoy the benefits should pay a greater share of these costs...." The 1965 budget reflects administrative actions on charges where they are legally permitted, and also proposes legislative actions where authority to impose or adjust charges does not exist. The legislative proposals are presented in detail further on in this report.

The Bureau of the Budget is responsible for coordinating the conduct of the user charges program within the executive branch. Its current directive on user charges, Circular No. A-25 issued in 1959, reaffirms and restates the basic policy statement set forth in Title V, and provides guidelines for its uniform application throughout the executive branch. In addition, the agencies are directed to submit annual reports to the Bureau of the Budget on their reviews of fees and charges during each fiscal year.

The Bureau also issues supplementary instructions from time to time calling for specific agency actions on user charges. For instance, Bulletin No. 63-8 asked agencies to review existing fees and charges in view of the increase in personnel costs occasioned by the Pay Reform Act of 1962. An example of agency action taken pursuant to the Bulletin is the increase in fees for 22 services rendered by the Customs Bureau, Treasury Department, mentioned in the complete listing attached as part of this report.

In addition, the Bureau of the Budget generally encourages the agencies to investigate user charges possibilities when formulating new program proposals for congressional consideration.

Administrative Action

where existing law permits, agencies made significant progress during fiscal year 1963 to establish or revise fees administratively to make them commensurate with the cost of providing special services and to assure the recovery of fair market value for the lease and sale of federally-owned property. In 1963 agencies took such actions in 185 cases compared with 85 in fiscal year 1959, 95 in 1960, 118 in 1961, and 141 in 1962. Of the 185 revisions, 114 were increases in fees, 28 were fees for new services, 16 were fees for services previously rendered free of charge, and 27 were either reductions or a combination of an increase and decrease (i.e., where the minimum charged was increased, and the maximum lowered, etc.). Examples of administrative action taken of the various agencies include; (1) increases in or establish

lishment of fees by the Bureau of Land Management, of the Department of the Interior, for many services relating to the use of federally-owned land (including grazing), (2) increase of 10% by the Department of Health, Education, and Welfare in the fee schedule for certifying pesticides used on raw agricultural commodities, and (3) an increase by the Housing and Home Finance Agency in the application fee for mortgage insurance on housing. A complete list of the changes in fees and charges reported as occurring during fiscal year 1963 is found in Attachment A.

Volume of Receipts

It is the general policy of the executive branch to deposit collections from user charges into the miscellaneous receipts accounts of the general fund of the Treasury (although exceptions are made for certain types of programs, as discussed later). The increased receipts credited to these accounts provide a yardstick by which the progress of the user charges program may be measured. This is evidenced by the following table showing deposits to miscellaneous receipt accounts for the fiscal years 1953, 1962, and 1963, and estimated for 1964. In considering the comparison, it should be noted that the figures for fiscal year 1953 are not comparable to the other years for items 3e and 4d, because the 1953 figures include amounts which are now deposited to other accounts of the Government (i.e., not to the miscellaneous receipts of the Treasury). In addition, item 2b for fiscal years 1963 and 1964 include unusually large amounts for rents of outer continental shelf lands.

Deposits to Miscellaneous Receipts of User Fees and Charges Shown by Categories of Activities - 1953-1964

		In millions of dollars		
Source	FY 1953 (actual)	FY 1962 (actual)	FY 1963 (actual)	FY 1964 (estimate)
Permits and Licenses:				
 a. Admission and recre- ation fees 	. 7.9	9.3	9.2	12.1
 b. Commissions on busi- ness concessions 		5.6	6.1	6.5
 Immigration, passport and consular fees 	t, . 15.5	21.0	23.9	26.2
d. Patent and copyright fees	. 6.5	9.2	9.5	15.5
e. Other permits, regis-	- 3			
trations, and li-	0.0	16.5	52.6 1	22.0
Total	45.0	61.6	101.3	82.3
No. of the second secon				121

1/ Includes \$30 million sugar import fees, the level of which depends upon the relation of the domestic market price to the world price. Currently no fees are collected since the world price is higher.

Transportation

2.	Re	nts and Royalties:				
	a. b. c.	Royalties	50.2 31.5 26.3	121.1 49.7 39.7	123.9 398.8 38.3	131.6 218.2 <u>36.5</u>
		Total	108.0	210.5	561.0	386.3
3.	Sa a.	le of Products: Timber, wildlife, agri- cultural, and other		-1		
	b.	land products	95.6	149.7	161.3	173.6
	c.	products	9.9 114.7	9.4 172.6	9.5 189.0	10.0 209.2
		ductions	4.9	5.2	5.5	5.9
	e.	Miscellaneous products and by-products	14.0	5.3	5.0	5.4
		Total	239,1	342.2	370.3	404.1
4.		scellaneous Fees and Charges:				
	a. b.	Testing, inspection, and grading services	2.9	3.5	3.5	3.4
	c.	services	2.4	15.1	17.2	20.9
	d.	Communications, and trans- portation services Subsistence, laundry, and	5.1	10.1	10.1	11.4
	e.	health services Miscellaneous services	6.6 9.7	4.1 5.8	4.5 8.6	5.2 9.9
		Total	26.7	38,6	43.9	50.8
		Grand total	418.8	652.9 1	.076.5	923.5

The estimated decline in user charges receipts in fiscal year 1964 from fiscal year 1963 is attributed to a decrease of \$180 million from the rent of outer continental shelf lands, partially offset by increased receipts in other areas.

In some instances, collections from user charges are permitted by law to be deposited to trust funds, public enterprise revolving funds, or as reimbursements to appropriations, rather than to the miscellaneous receipt accounts of the Treasury Department. For the most part, programs financed through trust or public enterprise funds are generally self supporting, or very nearly so. Examples are: (1) the inspection and grading of farm products by the Agricultural Marketing Service, tharges for which are deposited to Agricultural Marketing Service. Trust Funds; (2) the supervision of Federal credit unions by the

Social Security Administration, fees for which are deposited to a revolving fund; and (3) certain medical services rendered by Freedman's Hospital, fees for which are reimbursed to the hospital's appropriation for the costs concerned.

Agencies were asked this year, for the first time, to report total collections from user charges (during the fiscal year 1963) deposited to trust or revolving funds, or reimbursed to appropriations. The following table reflects agency totals only, since information is not always available as to the type of service rendered or the property sold.

DEPOSITS OF USER FEES TO TRUST AND REVOLVING FUNDS, AND REIMBURSEMENTS TO APPROPRIATIONS - FISCAL YEAR 1963 (In millions of dollars)

3		2002	
Agency	Revolving funds	Trust funds	Appro- priations
Department of Agriculture	.1	23.9	11.4
Department of Commerce	5.0	3.1	° j†
Department of Defense	62.0	-	32.5
Department of Health, Education,			
and Welfare	4.3	• 4	23.0
Department of the Interior	23.4	2.4	1.3
Department of Justice	-	-	1.5
Department of Labor	1.5	*	1.8
Post Office Department	3.4	-	-
Department of State	-	-	*
Treasury Department	=	-	12.8
Atomic Energy Commission	-	-	32.6
General Services Administration	1.0	٠3	-
Housing and Home Finance Agency 1/	1.3	-	_
Veterans Administration	2.0	-	1.9
Other	3.9		*
Total	107.9	30.1	119.2
10002			

^{*} Less than \$100 thousand

1/ Excludes \$234 million of combined insurance premiums and insurance properties application fees collected by the Federal Housing Administration; application fees collected by the application fees cannot be the collections attributable to application fees cannot be separately identified.

Proposals for legislative action

In the 1965 budget message, the President recommends that the Congress enact new legislation in a number of cases where existing law prevents appropriate fees from being charged for special Government services.

One of the major proposals is a renewal of the recommendation for transportation user charges to defray a larger share of the Government costs of operating and maintaining the airway and inland waterway transportation systems. In addition to retaining some existing charges (which tion systems. In addition to retaining some new charges (detailed would otherwise expire) and establishing some new charges (detailed

Transportation

below), this proposal would transfer revenues from the existing 2 cents per gallon tax on aviation fuel from the Highway Trust Fund to the general fund.

Other major legislative proposals include: (1) increasing fees for patents (already passed by the House of Representatives), (2) financing Federal meat and poultry inspection through the establishment of fees, (3) creation of a land and water conservation fund to develop recreation areas, and to be financed partially through fees at federally-owned recreation facilities.

The estimated effect of the proposed user charges legislation on 1965 revenues is as follows:

1965 Receipts (<u>In millions of dollars</u>)

A. Transportation user charges	
1. Retain the 5% tax on air	
passenger travel	98.0
2. Establish a 5 cents per	70.0
gallon tax on air freight	8.0
3. Extend the 2 cents per	0.0
gallon tax on fuels used	
in commercial aviation	
to jet fuels.	47.0
Therease from 2 cents to 3	4140
cents per gallon the tay	
on ruels used in general	
aviation	3.0
25 dautish a 2 cents per	3.0
Ballon tax on fuels used	
on the inland waterway	
transportation	8.0
Total, transportation user charges	
user charges	164.0
D. Increase Patont Con-	
C. Fees at Federal represent	11.0
C. Fees at Federal recreation areas to finance the proposed Land and Water Conservation	
and Water Conservation Fund	
D. Fees for meat and poultry	38.0
E. Feer etion.	
TOO TON	47.0
	2.0
G. Fees for laws	
G. Fees for warehousemen licenses H. Fixed fees for overtime inspection at borders	2.0
tion at born overtime ingre-	0.1
tion at borders	
Total, all user charges legisla-	.2
tive proposals charges legisla-	
tive proposals	Trang64.3ation
	204.5

Continuing action within the executive branch

with increases in costs for many Government activities, the user charges program is a continuing one that must be considered a permanent part of agency activity. Agencies will continue to take appropriate action where cost changes have made present charges inadequate or excessive, or where examination of a service or privilege indicates that establishment or change of fees under the present policy is necessary and practical. The Bureau of the Budget, in its role as coordinator of the program, will continue its efforts to assure that the user charges policy is applied uniformly and equitably by the agencies of the executive branch.

