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FEDERAL USER FEES

Fee Design Options and Implications for Managing Revenue Instability

GAO Highlights

Highlights of GAO-13-820, a report to the Chairman, Committee on the Budget, House of Representatives.

Why GAO Did This Study

In 2012, the President's Budget reported nearly $300 billion collected in user fees from the public. Given the nation's fiscal condition it is critical that every funding source and spending decision be carefully considered and applied to its best use. GAO was asked to review oversight opportunities for fees. GAO examined (1) key Congressional design decisions and related implications for achieving the desired balance between agency flexibility and congressional control, (2) issues related to identifying and managing unobligated balances in selected fee-funded agencies, and (3) key questions to identify potential sources of fee revenue instability and to manage any consequences. To do so, GAO analyzed laws, agency documents and guidance, literature, and prior GAO work. In addition, GAO interviewed officials at three fully fee-funded agencies, which were selected to illustrate implications of key design options, unobligated fee balances, and approaches for managing revenue instability. GAO also validated certain findings with budget subject matter specialists.

What GAO Recommends

GAO is not making any new recommendations in this report. GAO previously recommended that the Office of Management and Budget (OMB) review fee-funded programs and identify opportunities to improve their design and better align fee collections with program costs. OMB has not yet taken action on this recommendation. Two of the three selected fully fee-funded agencies provided technical comments which were incorporated as appropriate.

View GAO-13-820. For more information, contact Susan J. Irving at (202) 512-6806 or irvings@gao.gov or Jacqueline M. Nowicki at (617) 788-0580 or nowickij@gao.gov.

What GAO Found

GAO identified six key fee design decisions related to how fees are set, used, and reviewed that, in the aggregate, enable Congress to design fees that strike the desired balance between agency flexibility and congressional control (see figure below). For example, narrowly limiting the activities for which fees may be used heightens congressional control over the funds; however, doing so can also reduce an agency's flexibility to reallocate resources as needs change and may increase administrative costs. Design decisions also have program management implications. For example, the frequency of fee reviews and adjustments affects the alignment between collections and costs. Failing to review fees regularly has sometimes resulted in large increases when fees are eventually updated, creating costly challenges. Understanding the implications of fee design is important to avoid such unintended consequences.

Congressional Fee Design Decisions Key to Determining Agency Flexibility and Congressional Control

Setting	Using				Reviewing
How are fee rates set?	What Congressional action triggers the use of fee collections?	What is the period of availability for the collections?	For what purposes may the collections be used?	To what degree will Congress limit the amount of collections that can be used?	What types of reporting and oversight requirements are in place?

Source: GAO.

Identifying and understanding unobligated balances—the portion of obligational authority that has not yet been obligated—in fee-based accounts is challenging. There is no single list of all federal user fees, and in general, budget accounts are not labeled in a way that indicates whether an account contains fee collections. This makes it challenging to identify whether (or which) unobligated balances in an account are fee-related. Further, some fee designs include dedicated reserves that appear as unobligated balances. Despite these challenges, funding a program or agency through fees does not eliminate the need for careful monitoring and managing of unobligated balances.

Considering key questions about costs and collections can enable Congress and agencies to identify and manage potential fluctuations in fee collections–known as revenue instability–as well as potential consequences. Importantly, decision makers need to understand potential vulnerabilities in the context of a fee's design. Examples of such questions include: what is the risk that fee revenue instability will affect a program? What analysis is needed to understand factors such as cost drivers and elements that influence collections? Are there data limitations that could add uncertainty to collection estimates? Can the agency quickly respond to changing costs? What factors affect the timing and pattern of collections and spending? If revenue instability is a function of a fee's design, the most sustainable solutions are often found by realigning costs and collections. In other cases, maintaining a reserve can help address sudden or temporary fluctuations in collections and/or costs and can minimize the effect of revenue instability on operations.