UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION

August 18, 1982

Mr. R. Max Peterson
Chief, Forest Service
Department of Agriculture

Dear Mr. Peterson:

Subject: Problems With the Forest Service's Graduated Rate Fee System

We have completed a limited review of the Forest Service's graduated rate fee system (GRFS) used to compute fees charged permittees for using Service-owned land. The Service estimates that these fees totaled about $6.5 million in fiscal year 1981 and that about 80 percent was paid by ski area permittees. Because of the significance of ski area permit fees, our work focused primarily on how these fees were established under GRFS.

We have discontinued our review but will use the information obtained in planning future work. In the interim we want to advise you of the following matters that we observed and discussed with Service headquarters officials.

Economic conditions in the late 1960's when GRFS was established have since undergone major changes because of such things as increased energy costs and higher inflation rates. Under GRFS fees are based on the permittee's acquisition cost of the fixed assets--ski lifts, buildings, and so forth--and current sales dollars. Fees are calculated by multiplying the permittee's gross sales for a year by a fee rate which is adjusted annually based on the ratio of current gross sales to the acquisition cost of fixed assets. Because GRFS uses current inflated sales dollars in relation to the acquisition cost of fixed assets, GRFS may not reflect present economic conditions and may not be the best system for computing fees for using Service-owned land. Because of this and other inherent system flaws discussed below, we believe that the Service should restudy GRFS' appropriateness and consider possible replacement systems.

The system flaws we noted are as follows.

--Service studies indicate that using different break-even points 1/ for various business lines within an integrated ski area enterprise may not be appropriate.

1/The Service defines the break-even point as the point at which a business begins to show a return on investment. It is expressed as a ratio of sales to gross fixed assets.

(021970)

--The Service allows the value of rented equipment to be included in the fee formula as gross fixed assets, thereby lowering the fee charged the permittee.

--Although Office of Management and Budget (OMB) guidelines recommend that Federal agencies use a fee system in which the percentage fee charged increases as a permittee's sales increase, the Service's system for computing fees does not fully accomplish this.

--The application of GRFS raises a question as to the appropriateness of old versus new permit fees because GRFS allows a new permittee who acquires an existing ski area enterprise to pay a fee that is lower than the previous permittee's fee for the same use of the Service's land.

We also evaluated a fee method that Service staff had developed and suggested as a possible replacement for GRFS. We believe this method would not result in a fully equitable system for computing fees, but it points up the need for further study to develop a better system.

The system flaws we noted in GRFS, and to a lesser extent in the Service staff's suggested fee method, are discussed in more detail in the following sections.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our work focused primarily on how ski area permit fees were established by the Service and whether the fee system seemed appropriate. We did our work at the Service's headquarters in Washington, D.C.; its regional office in Lakewood, Colorado; and 12 permittee businesses in Colorado. We interviewed Service headquarters and regional officials responsible for recreation and special use permits; other headquarters officials involved in establishing and implementing GRFS; a Service regional auditor responsible for auditing fees paid under GRFS; and representatives of 10 ski area operators, a motel, and a restaurant operating on Service-owned land. We obtained and reviewed Service regulations and records pertaining to GRFS; studies which established and addressed problems attributed to GRFS; permittee records pertaining to fee computations; and audit reports prepared by Service auditors and the Department of Agriculture's Inspector General. We discussed the Inspector General's reports with the auditors responsible for the work. We did our work in accordance with generally accepted government auditing standards.

USE OF DIFFERENT BREAK-EVEN POINTS FOR DIFFERENT BUSINESS LINES MAY NOT BE APPROPRIATE

Different break-even points for different business lines of an integrated ski area enterprise are used in GRFS for calculating permit fees. These business lines can involve such things as food service, lodging, rental of equipment, ski lift operations, shops, and instructional classes and are closely integrated to the point where distinctions between different break-even points for the separate business lines are difficult to make.

The report on a 1967 Service study which formed the basis for GRFS stated that ski area permittee operations generally were highly integrated enterprises and that the variety of services offered were considered essential to the skier's well-being and enjoyment. The report also stated that no proper basis existed for using separate break-even points for the different business lines operated as an integrated enterprise. It recommended that the fee formula for ski enterprises not have different break-even points for the various business lines.

A more recent Service study completed in 1981 noted that ski area permittee operations were made up of a group of highly interdependent business lines that comprised a total enterprise. The study concluded that many fixed and variable costs of the enterprise applied to all the business lines and that it would be very difficult to equitably allocate the costs so as to enable development of separate break-even points for each of the business lines.

To avoid the need for separating the ski area enterprise into different business classes and to overcome the troublesome problem of properly allocating fixed and variable costs to the different business classes, we believe that the Service should give consideration to using a single break-even point for a permittee's ski area enterprise instead of different break-even points for each business line of the enterprise.

ALLOWING THE VALUE OF RENTED EQUIPMENT TO BE INCLUDED AS ASSETS SHOULD BE DISCONTINUED

The Service allows the value of rented equipment--such as ski lifts, snow-making equipment, and so forth--to be included as gross fixed assets in the fee formula. Service officials said that this practice began when GRFS was established and was a concession to permittees who rented large amounts of equipment. They said that excluding the value of rented equipment as gross fixed assets would result in a fee that would be higher than the fee charged permittees who invested in the same amount of equipment.

The Service practice, in our opinion, departs from the basic rationale underlying GRFS, which is intended to recognize only the permittee's actual investment in fixed assets for the purpose of fee computations. We believe that including rented equipment in gross fixed assets should be discontinued because no permittee investment is involved. Allowing such items to be considered as assets artificially overstates the value of the permittee's investment and reduces the amount of the Government's fee. This practice also was questioned and brought to the Service's attention by the Department of Agriculture's Inspector General in May 1981 but, at the time of our review, had not been resolved.

GRFS DOES NOT FULLY COMPLY WITH OMB GUIDELINES

OMB guidelines for fees to be charged for using Federal land recommend that the percentage fee charged be based on a progressive system under which the fee percentage would increase as a permittee's sales increase in proportion to the investment used to generate the increased sales. The following table shows that, with the exception of the last business class (lifts, tows, and ski school), the GRFS method used to compute fees for the use of Service-owned land does not comply with this principle when a permittee's sales exceed twice the break-even point.

Percentage of Sales Used To Compute Fees Under GRFS

Business classes	For sales below break-even point	For sales from break-even point to twice the break-even point	For sales above twice the break-even point
Grocery	.38	1.13	.85
Food service	.63	1.88	1.50
Car service	.65	1.95	1.60
Merchandise	.75	2.25	1.80
Liquor service	.90	2.70	2.15
Outfitting	1.00	3.00	2.65
Lodging	2.00	6.00	5.30
Rentals	2.25	6.75	5.95
Lifts, tows, and ski school	1.00	3.00	5.00

A PERMITTEE WHO PURCHASES AN EXISTING SKI AREA ENTERPRISE CAN PAY A LOWER PERMIT FEE THAN THE PREVIOUS PERMITTEE

GRFS allows a new permittee who acquires an existing ski area enterprise to pay a fee that is lower than the previous permittee's fee for the same use of the Service's land. This situation occurs when the new permittee purchases the fixed assets (such as ski lifts and buildings) for more than the previous permittee paid for them. Using a higher value for the same fixed assets results in a lower fee under GRFS and, in our opinion, points up a basic flaw in the fee system. The problem stems basically from the fact that inflation has forced up the dollar amount of sales while the cost of acquired fixed assets remains the same. The effect under GRFS is that when a ski area enterprise is sold, the fixed assets are revalued, thereby reflecting the inflation that occurred, and the fee to the new permittee is lower.

The Code of Federal Regulations (36 CFR 251.57(a)) directs the Service to require the payment of a fee or charge commensurate with the fair market value of the land use authorized by the permit. Consequently we see no reason why the value of the use of Service-owned land upon which the facilities are located should be affected simply because the facilities are sold.

CHANGES TO GRFS HAVE BEEN PROPOSED BUT PROBLEMS ARE STILL UNRESOLVED

The problems discussed above either prompted or were recognized during a Service study of GRFS completed in 1981. The study objectives were to analyze GRFS, identify problems, and make recommendations to improve the Service's fee system. To correct the problems, Service headquarters staff proposed a new method of computing fees. We evaluated the new method suggested for ski areas and, as discussed below, found an indicated flaw which we believe could result in inequitable fees among ski area permittees.

The methodology used in the suggested fee method for ski area permittees is based on the study finding that a close relationship existed between a ski area enterprise's ratio of sales to investment and its ability to generate profits. Permittee records, however, showed that some ski area enterprises with similar ratios of sales to investment had significantly different amounts of profit. Some had operating losses even before such expenses as depreciation, interest, fee payments, and taxes were considered, while others had operating profits up to 40 percent of sales before deducting similar expenses. This situation indicated that a close relationship does not always exist between a ski area enterprise's ratio of sales to investment and its ability to generate profits, and that charging the same percentage fee, as the study recommended, to ski area enterprises with the same or similar sales to investment ratio may not always be equitable.

Although the study did not, in our opinion, result in a fully equitable system for computing fees, it did point up the need for further study to develop a better system. Service headquarters officials said that our review has addressed basic flaws with GRFS as well as highlighted a need for a better method to compute fees. They also said that devising and implementing an improved fee method would be a future goal while, in the interim, procedural changes could be made to correct the flaws we have addressed.

RECOMMENDATIONS

We recommend that the Service devise an improved fee-setting method which would be simple to apply and would result in equitable fees. We recommend also that until an improved fee method can be devised, the following interim steps be taken.

-- Consider establishing a single break-even point for a permittee's ski area enterprise.

-- Discontinue the allowance of the value of rented equipment in gross fixed assets.

-- Revise the ski rate schedules to provide for progressively higher percentages as sales revenues increase.

-- Devise and implement an alternative procedure which would not result in a reduced fee simply because an existing ski area enterprise is acquired by a new permittee.

- - - -

We appreciate the cooperation extended to us during our review and would appreciate being advised of any actions taken or planned on the matters discussed above.

Copies of this report are being sent to the Assistant Secretary for Natural Resources and Environment and to the Inspector General.

Sincerely yours,

Stanley S. Sargol

Stanley S. Sargol
Group Director