Directive 408.1
7/25/94

FINANCIAL GUIDELINES FOR COOPERATIVE GRADING PROGRAMS

I. PURPOSE

A. This Directive provides managers of Agricultural Marketing Service (AMS) cooperative agricultural product grading programs that collect user fees with guidelines for establishing and maintaining reserve funds. It is meant to respond to USDA Office of Inspector General requirements to reinforce the efforts of State/cooperator managers to operate fiscally viable grading programs.

B. The guidelines in this Directive do not apply to cooperative grading programs where AMS establishes user fee rates, collects all user fees, and manages the program's reserve.

II. AUTHORITY

Cooperative user-financed grading programs are carried out under the provisions of the Agricultural Marketing Act of 1946 (7 U.S.C. 1621-1627), and cooperative agreements entered into by AMS and the respective States/cooperators.

III. POLICY

Based on the requirements of the Agricultural Marketing Act (Sec. 203(h)), it is AMS policy that all user-financed cooperative grading programs recover the costs of providing services and maintain a reasonable reserve to finance accrued liabilities and shutdown expenses. Fee analyses should be prepared and, if necessary, fees adjusted to maintain an adequate reserve and ensure fiscal solvency.

IV. DEFINITIONS

A. Accrued liabilities are expenses incurred that must be paid at some future date. Examples are accrued leave, severance pay, unemployment compensation, and workers' compensation.

B. Accrued liability and shutdown analysis is a formalized estimate of a program's accrued liabilities and shutdown expenses. It is largely based on each cooperator's individually mandated employee benefits, as well as other legal contracts and commitments of the program.

C. Cooperators are defined as organizations that have signed cooperative agreements with AMS and are responsible for determining user fee rates and managing user fees collected to carry out cooperative agricultural product quality grading programs.

D. Fee analysis is a comparison of the actual and projected revenues and costs incurred while performing a service. It includes the time or other applicable measurement required to perform the service. This analysis is performed to determine an appropriate fee to recover the cost of providing future service and to maintain an adequate reserve.

E. Reserve funds are derived from normal fee collections that are not needed for immediate program expenses, and are held to cover accrued liabilities or to provide necessary operating capital.

F. Shutdown expenses are all costs and accrued liabilities which must be paid if a program terminates.

G. User fees represent assessments which are charged to recipients of a service.

V. RESPONSIBILITIES

Cooperators should:

A. Periodically calculate the value of the respective cooperator's grading program accrued liabilities.

B. Establish a policy for reserve balances for the cooperative grading programs.

C. Perform annual fee analyses.

D. Raise or lower fees to recover operating costs as appropriate to maintain an adequate reserve balance.

VI. CALCULATION OF ACCRUED LIABILITIES

A. Frequency of Analysis. The calculation of required operating capital, including accrued liabilities and shutdown costs, should be completed every 3 to 5 years, depending on changes

AND SHUTDOWN COSTS

in State benefit laws or changed rates of inflation.

B. Contents of Analysis. Each cooperator is responsible for determining the method for this analysis. However, to ensure that adequate reserves are maintained, AMS recommends that each analysis include cost estimates for the following:

1. Salaries and benefits paid to permanent full- and part-time personnel from the time the decision is announced to shut down a program until the offices are actually closed.

2. Travel costs incurred, if any, while returning employees to their official duty station.

3. Telephone charges, building rental charges, printing of official reduction-in-force notices, costs for moving office furnishings and equipment, and other related contractual obligations associated with terminating the program.

4. The dollar value of employees' accrued leave. This could include sick and annual leave depending on the respective cooperator's employee benefit package.

5. The cost of severance pay. This will be determined by the respective State's laws.

6. The cost of future workers' compensation payments to injured employees.

7. The cost of unemployment compensation. This will be determined by the respective State's laws.

8. The need for operating capital, including seasonal startup costs and other requirements to cover unusual costs or temporary losses of revenue due to varying demand for inspection services.

9. Any other accrued costs that may result from State laws, regulations, or policies.

VII. COOPERATOR POLICY ON RESERVE BALANCES

A. Cooperators are responsible for:

1. Reviewing appropriate State laws and the results of the accrued liabilities and shutdown analysis.

2. Establishing a policy for the appropriate level of reserve to be maintained for their respective cooperative grading program. This policy should be documented in written form and a copy sent to the appropriate AMS grading program manager.

B. This policy should be reviewed and, if necessary, modified, whenever a new accrued liability and shutdown analysis is completed.

VIII. PREPARATION OF FEE ANALYSIS

A. Frequency of Analysis. A fee analysis should be prepared once every 1 to 3 years, depending on the size and financial status of the program. A copy should be sent to the appropriate AMS grading program manager. In accordance with AMS policy for retention of agency fee analyses, the cooperators' analyses and supporting data should be kept on file for 3 years.

B. Contents of Analysis. Each cooperator is responsible for determining the method for the fee analysis. However, AMS recommends that each analysis include the following:

1. Current and projected workload indicators such as revenue producing hours, pounds graded, or other applicable indicators.

2. Cost data which details most recent actual and anticipated future costs for providing the service.

3. A sensitivity analysis that details the impact on revenue and costs resulting from varying workload data. A suggested format for the sensitivity analysis is shown in Attachment 1.

4. At least a 2-year projection of the financial position of the program, using several alternative fees.

IX. INQUIRIES

For further information, please contact the Director, Financial Management Division.

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Administrator

Attachment

Attachment 1
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07/25/94

Sensitivity Analysis for the Program
Fiscal Year

		Workload Indicators(1)		
		100 Percent of Current Estimate	95 Percent of Current Estimate	105 Percent of Current Estimate
Service Performed:(2)				
Base Hours		10,000	9,500	10,500
Premium Hours		3,000	3,850	3,150
Holiday Hours		100	95	105
Revenue:(3)				
Base Hours @:				
	$5.00	$50,000	$47,500	$52,500
	$4.00	40,000	38,000	42,000
	$3.00	30,000	28,500	31,500
Premium Hours @:				
	$10.00	$30,000	$28,500	$31,500
	$ 9.00	27,000	25,650	28,350
	$ 8.00	24,000	22,800	25,200
Holiday Hours @:				
	$15.00	$1,500	$1,425	$1,575
	$14.00	1,400	1,330	1,470
	$13.00	1,300	1,235	1,365
Expenses:				
Program(4)		$40,000	$38,000	$42,000
Overhead(5)		13,500	12,825	14,175
Total Expenses		$53,500	$50,825	$56,175
Profit/(Loss):				
Base/Premium/Holiday Hours:				
$5.00/$10.00/$15.00		$28,000	$26,600	$29,400
$4.00/$9.00/$14.00		14,900	14,155	15,645
$3.00/$8.00/$13.00		1,800	1,710	1,890
Reserve balance at beginning of new fee:(6)		$10,000	$10,000	$10,000
Reserve 1 year after implementation of new fee at varying rates:				
Base/Premium/Holiday Hours:				
$5.00/$10.00/$15.00		$38,000	$36,600	$39,400
$4.00/$9.00/$14.00		24,900	24,155	26,645
$3.00/$8.00/$13.00		11,800	11,710	11,890

------------- NOTES -------------

1. Three levels are required: The current workload level, a lower workload (e.g., 95 percent), and a greater workload (e.g., 105 percent).

2. List each service component for which fees are charged (i.e., regular hours, holiday, Saturday, Sunday, bales, lots, resident grading, etc.).

3. Three different revenue rates should be presented for each service component.

4. Cooperator's direct program costs.

5. Cooperator's indirect costs.

6. Determine the reserve at the effective date of the fee increase and show the effect on the reserve by the three proposed workload levels in the revenue section.