



Highlights of [GAO-10-560T](#), a testimony before the Subcommittee on Immigration, Citizenship, Refugees, Border Security, and International Law, Committee on the Judiciary, U.S. House of Representatives

## Why GAO Did This Study

In light of increasing congressional interest in user fee financing, GAO developed a framework for examining user fee design characteristics that may influence the effectiveness of user fees. Specifically, we examined how the four key characteristics of user fees—how fees are set, collected, used, and reviewed—may affect the economic efficiency, equity, revenue adequacy, and administrative burden of cost-based fees. United States Citizenship and Immigration Services (USCIS) is responsible for granting or denying the millions of immigration and naturalization applications each year and charges fees to recover all processing costs. In 2007, USCIS completed a fee review to determine the level at which fees should be set to recover the full cost of its services and increased application fees by an average of 86 percent.

USCIS is preparing its first fee review since the 2007 fee increase. It is critical that USCIS and the Congress have the best possible information when overseeing these fees and the operations they fund. This testimony focuses on (1) user fee design and implementation characteristics and criteria, (2) cost assignment and trade-offs identified in USCIS's 2007 fee review, and (3) additional considerations for fee-funded agencies. It is based on past GAO reports, which included recommendations to the Secretary of Homeland Security (DHS). DHS agreed to consider these recommendations in their next fee review.

View [GAO-10-560T](#) or key components. For more information, contact Susan J. Irving at (202) 512-6806 or [irvings@gao.gov](mailto:irvings@gao.gov).

## FEDERAL USER FEES

### Fee Design Characteristics and Trade-Offs Illustrated by USCIS's Immigration and Naturalization Fees

## What GAO Found

There are four key design and implementation characteristics of user fees—how fees are set, collected, used, and reviewed. Each design and implementation characteristics presents its own set of decisions to consider and embodies trade-offs among the four criteria that are often used to assess user fees: equity, efficiency, revenue adequacy, and administrative burden.

**Equity:** Equity means that everyone pays his/her fair share, but there is more than one way to think about fair share. Under the beneficiary-pays principle, the beneficiaries of a service pay for the cost of providing the service from which they benefit. Under the ability-to-pay principle, those who are more capable of bearing the burden of fees should pay more for the service than those with less ability to pay.

**Efficiency:** By requiring identifiable beneficiaries to pay for the costs of services, user fees can simultaneously constrain demand and reveal the value that beneficiaries place on the service. If those benefiting from a service do not bear the full social cost of the service, they may seek to have the government provide more of the service than is economically efficient.

**Revenue adequacy:** Revenue adequacy is the extent to which the fee collections cover the intended share of costs. It encompasses the extent to which collections may change over time relative to the cost of the program and the concept of revenue stability, or the degree to which short-term fluctuations in economic activity and other factors affect the level of fee collections.

**Administrative burden:** This is the cost of administering the fee, including the cost of collection and enforcement, as well as the compliance burden.

Setting the fee is perhaps the most challenging of the fee design decisions because determining the cost of the service is often quite complex and requires considering a range of issues. One of the biggest issues in fee setting is how to define and apply the equity criterion, such as determining the overlap between beneficiaries and users, whether to employ a beneficiary pays or ability to pay equity principle, how to address fee exemptions and waivers, and finally, how to assign costs among users. Many of these design choices described in USCIS's 2007 fee review provide transparent analysis and identify deliberate trade-offs. However, USCIS did not conduct the analysis necessary to fully inform either congressional decision making or USCIS's internal deliberations on key areas such as the cost of activities funded by statutorily-set fees that led to unknown cross-subsidizations.

When fees are supposed to cover all or a set portion of the costs of an agency or activity the criterion of "revenue adequacy" may be especially important to consider. For example, a reserve is important for fully fee-funded programs because it provides a cushion if program costs would not drop proportionally with a drop in fee collections. A reserve could also help support preparation for any anticipated surge in users, especially if fee collections would come after the expenditures to prepare for the surge.