GRAIN INSPECTION, PACKERS AND STOCKYARDS ADMINISTRATION (GIPSA)

GIPSA: MISSION AND GOALS

GIPSA facilitates the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products, and promotes fair and competitive trading practices for the overall benefit of consumers and American agriculture.

GIPSA administers uniform, national grain inspection and weighing programs established by the U.S. Grain Standards Act (USGSA). Services under the USGSA are performed on a fee basis for both export and domestic grain shipments. The USGSA requires generally that export grain be inspected and weighed; prohibits deceptive practices and criminal acts with respect to the inspection and weighing of grain; and provides penalties for violations.

Under the provisions of the USGSA, most grain exported from U.S. export port locations must be officially weighed. Intercompany-barge grain received at export port locations also must be officially weighed. A similar requirement exists for inspection, except for grain which is not sold or described by grade. Grain exporters shipping less than 15,000 metric tons of grain abroad annually are exempt from mandatory official inspection and weighing requirements. Grain exported by train or truck to Canada or Mexico also is exempt from official inspection and weighing requirements. And, the USGSA requires that all corn exported from the United States be tested for aflatoxin prior to shipment, unless the contract stipulates that testing is not required.

Mandatory inspection and weighing services are provided by GIPSA on a fee basis at 36 export elevators, which account for 80 percent of U.S. grain exported by vessel. Seven delegated States provide official services under GIPSA oversight at an additional 18 export elevators, which handle the remaining 20 percent of U.S. grain exported by vessel.   Under a cooperative agreement with GIPSA, the Canadian Grain Commission provides official services, with GIPSA oversight, at seven locations in Canada that transship export U.S. grain.

GIPSA GRAIN PROGRAM FINANCIAL PICTURE

Grain Program Budgets: The fiscal year 2005 budget for GIPSA's grain program is provided in Table 1.

Grain Inspection, Packers and Stockyards Administration
Federal Grain Inspection Service (FGIS)
(Dollars in Millions)

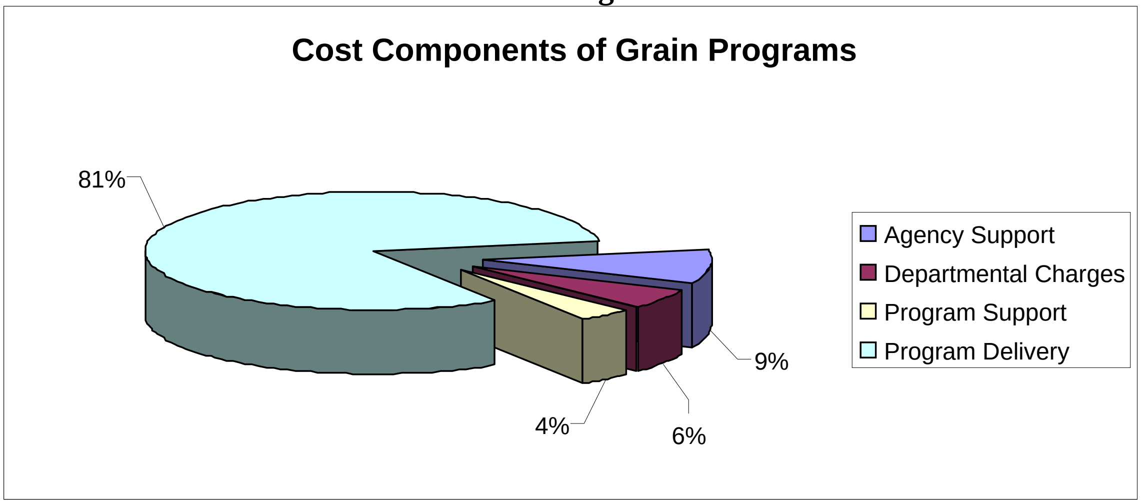
Table 1

Program	FY 2005 Budget	
	Dollars	Percentage
U.S. Grain Standards Act Inspection and Weighing	$31.1	
U.S. Agriculture Marketing Act Inspection and Weighing	7.0	
Subtotal, User Fee Programs	38.1	69%
Compliance	6.0	
Methods Development	7.1	
Standardization	4.3	
Subtotal, Appropriated Programs	17.4	31%
Total	$55.5	100%

Grain Program Cost Components: There are four major cost components of all grain programs: (1) program delivery costs; (2) program direction and support costs; (3) Departmental charges; and (4) agency support costs.

Figure 1 shows a breakout of these cost components for all grain programs.

Figure 1



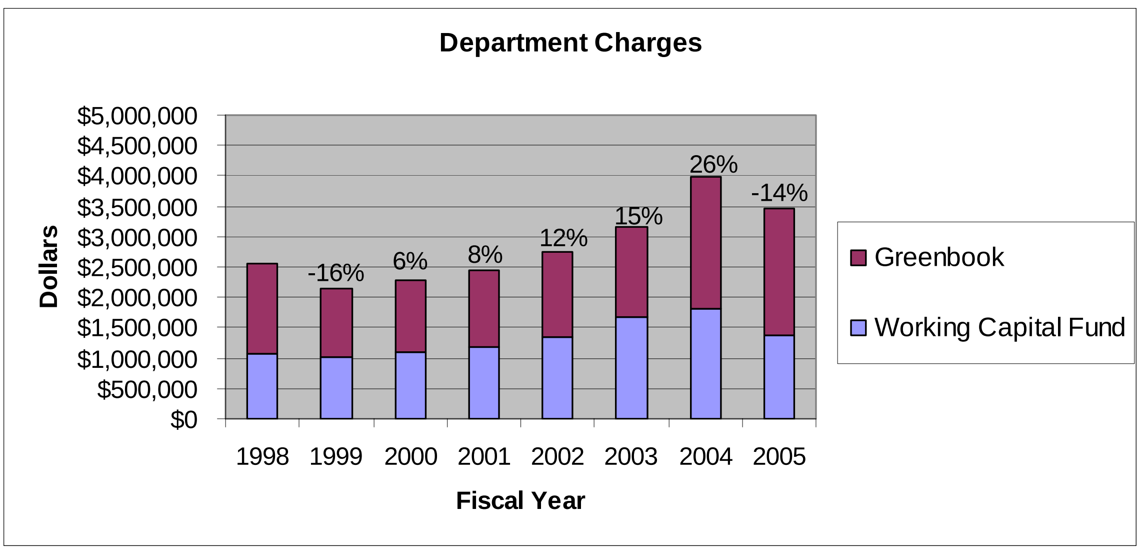
1) <u>Program delivery costs</u> are the direct costs of providing service to customers. This cost includes personnel costs and benefits for those who directly provide service, e.g., samplers, technicians, inspectors, and weighers. The largest share of Federal service costs -- 81 percent -- is allocated to the field for direct delivery of program services.

2) <u>Program direction and support costs</u> are the costs to oversee and manage direct activities. This cost includes management and administrative support at the local field office and headquarters support provided by organizational units in the grain program, the Deputy Administrator's office, and the training office.

3) <u>Departmental charges</u> are centrally assessed costs for services such as billing and payroll from the USDA National Finance Center, USDA-wide financial systems, telecommunication services, central information technology services, etc.

Department charges comprise about 6 percent of total grain program costs. These costs have increased a total of 35 percent since FY 1998 for an average increase of 4 percent annually as shown in Figure 2.

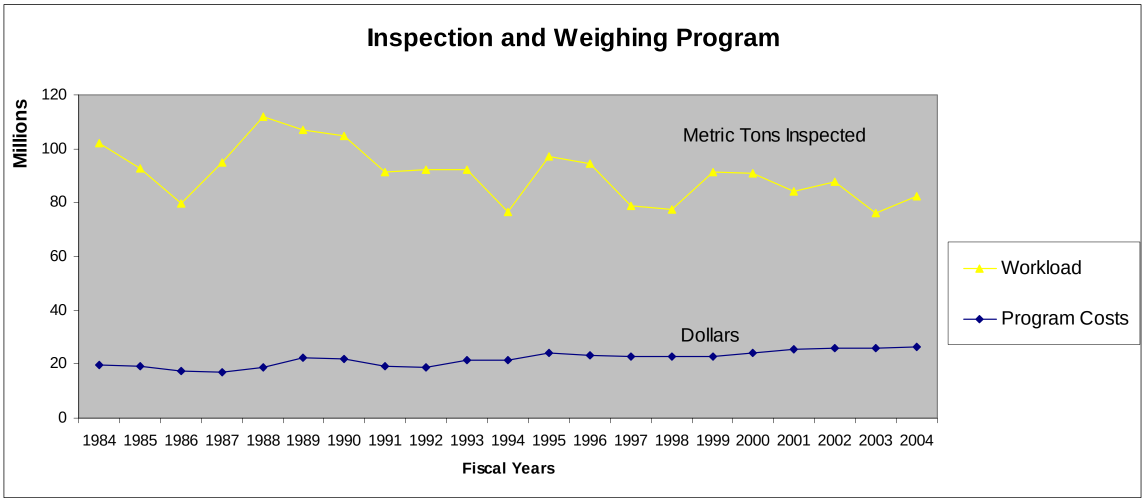
Figure 2



4) <u>Agency support costs</u> include costs for the Agency's units that provide budget, civil rights, information technology, and for contractual personnel, procurement, and accounting services from other USDA agencies.

Federal Export Grain Inspection and Weighing Cost: GIPSA's Federal grain inspection and weighing program costs, including all four components (program delivery costs; program direction and support costs; Departmental charges; and agency support costs), have increased an average of 3.03 percent annually since FY 2000 despite fluctuations in the volume of grain inspected and weighed each year (figure 3).

Figure 3

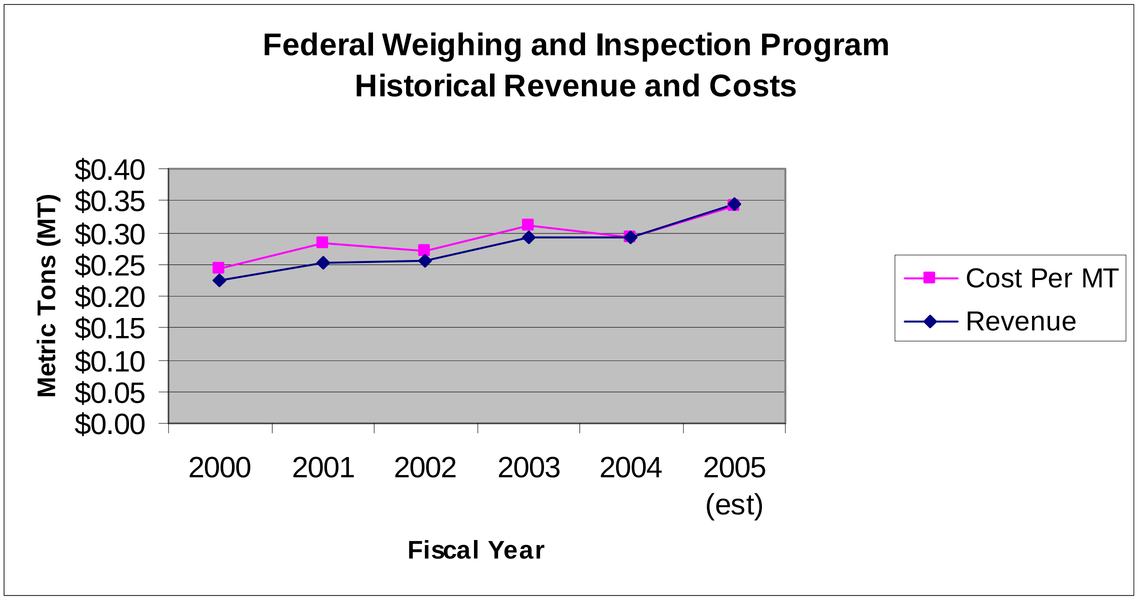


Over the past 20 years (1984 to 2004), GIPSA has controlled operating costs to achieve an average 1.3 percent annual operating cost increase, which is below the national average annual inflation rate. GIPSA's ability to control operating costs is attributable to streamlining the organizational structure, consolidating administrative services, and introducing new business processes, which, in part, was possible due to GIPSA working with the industry to change operating procedures and the industry's willingness to invest in automated samplers, scales, and handling systems.

From 2000 to 2005, GIPSA's average annual costs measured on a *per-metric-ton basis* increased approximately 7 percent. The per ton inspection costs have increased at a higher rate than total operating costs due to declines in export volume and shifts in the percentage of exports handled by specific ports. Freight rates, crop quality, and world market demand, all influence the volume and location of grain exports. Maintaining a highly qualified staff of Federal inspectors and responding to the fluctuating market demands can influence program efficiencies, as reflected in the annual 7 percent per ton cost increases. Given the requisite constancy of GIPSA program delivery costs (e.g., personnel and benefits remain constant), in low-volume years, the cost per metric ton will necessarily be greater; in high-volume years, that cost measure will be lower.

Since FY 2000, revenue has averaged $0.27 per metric ton while costs have averaged $0.29 per metric tons (figure 4).

Figure 4



Metric ton costs for different locations can vary based on the loading efficiency of specific export facilities and regional marketing practices. For example, the cost per metric ton for the first 6 months of FY 2005 averaged $0.256 in the New Orleans area, $0.495 in the Texas gulf area; $0.626 in the Portland area, and $0.637 in the Toledo area.

Federal Inspection and Weighing Fees: The fees for Federal inspection and weighing services are comprised of an hourly rate for the inspectors working onsite, unit fees for testing services beyond the basic grade analysis (e.g., protein, aflatoxin, oil, etc.), and a per-metric-ton-exported fee to cover local administrative and headquarters support costs.

The hourly rates can be contract and non-contract rates as well as overtime and holiday rates. All hourly rates are the same nationwide. The hourly rate produces revenue to cover the program delivery costs.

There are uniform nationwide unit fees for each specific test requested. These revenues cover the cost of equipment and other service costs, such as hazardous waste disposal.

The four regional tonnage rates include two components -- $0.04 per ton to cover headquarters costs [which includes the program support costs, departmental charges, and agency support costs] plus a regional rate that differs by port to cover the cost of local administrative services. The regional fees were based on the projected volume of grain handled in the specific ports. The published regional fees are: League City, $0.167; New Orleans, $0.067; Portland, $0.136; and Toledo $0.184. The regional fees include both the national headquarters plus regional program support costs.

While the long term operating costs of the Federal inspection and weighing program have increased less than inflation, fees have been adjusted over the years to collect sufficient revenue to cover operational costs. Modified business processes in response to both internal GIPSA program operational improvements and changes in industry practices have reduced the overall billable hours charged by GIPSA. Increases in hourly rates for inspection and weighing services were driven both by incremental increases in operating expenses (e.g., Federal pay increases) and by a reduction in billable hours (i.e., altered program procedures reduced staffing requirements). The basic contract hourly rate has increased from $23.00 per hour in 1996 to the current level of $36.00. The basic non-contract rate has increased from $33.00 in 1996 to the current rate of $64.00.

DELEGATED PRIVATE AGENCY (DPA) CONCEPT

Background: During the reauthorization hearings, the grain industry voiced support for transitioning from 100 percent Federal export grain inspection and weighing service provision at export ports to the use of delegated private agencies to provide export grain services. Under the industry concept, GIPSA would delegate private agencies to provide original inspection and weighing services at export port locations not serviced by delegated State agencies instead of Federal employees.

This concept would require a legislative amendment to the USGSA, and regulatory changes to implement it. If enacted, GIPSA would delegate a limited number of qualified private companies to provide export inspection and weighing services in a given export area. The delegated private agency would negotiate service agreements with export grain companies to provide export and permissive inspection and weighing services. GIPSA would remain at export port locations to provide some service responsibilities to help ensure the integrity of export grain cargoes; provide 100 percent onsite supervision of delegated private agency; and routinely audit the delegated private agency's operation.

The Administration requested reauthorization of the USGSA, without any program changes, to continue providing services for the benefit of the grain industry and public. During the May 2005, hearings in both the House and Senate, stakeholders recommended changes to the USGSA to improve the cost effectiveness of the export inspection and weighing program and, in turn, the competitive position of U.S. grain exports in the global market. The proposed legislation introduced (S. 1582 and H.R. 3421) reflects the recommendations of the stakeholders. We undertook an analysis of the proposed changes in order to provide further insight into the feasibility of the changes and their potential financial impacts (costs and savings).

The Administration has not taken a formal position on the proposed changes, but the concept of delegating private inspection agencies to provide export grain inspection services under direct federal oversight is feasible. Furthermore, the proposal is consistent with Department-wide efforts to implement the President's Management Agenda. Information provided in follow-up questions to the hearings and at the August 17 meeting attempts to show how the Administration would implement the new authorities, if enacted, and their impact on current and future program operations.

Realigning the Federal Workforce for DPA services: The majority of our Federal workforce is eligible for retirement by 2009. While not all will actually retire at that time, GIPSA expects increased level of retirements in the upcoming years. However, the level of natural attrition required to achieve a reduced Federal workforce needed to transition to a DPA service will likely extend to 2012 or beyond.

GIPSA estimates it will cost $3-$6 million to transition from the current Federal service program to a DPA-based program. The $3 million figure is based on GIPSA conducting a reduction-in-force (RIF), wherein severance pay and annual leave lump sum amounts would be paid to displaced employees. RIFs are based on seniority. If GIPSA conducted a RIF to reduce staffing levels for the transition, 95 percent of the remaining GIPSA workforce would be immediately eligible for retirement. The $6 million transition cost estimate is based on implementing a voluntary separation incentive package (buyout) of $25,000. Voluntary separation incentive packages, which require Federal approval, are used by the Federal government as a catalyst for downsizing an organization. This process generally provides an incentive for more senior employees to retire. Under a buyout program, GIPSA estimates that 40 percent of the remaining workforce would be immediately eligible for retirement.

Projected Federal vs. DPA Service Program Savings. GIPSA estimates shifting from the status quo Federal program to the industry recommended alternative private with Federal oversight system could result in a cumulative savings by 2014 of $26 million (after accounting for a one time $6 million transition cost), compared to industry cumulative savings estimated at $112 million.

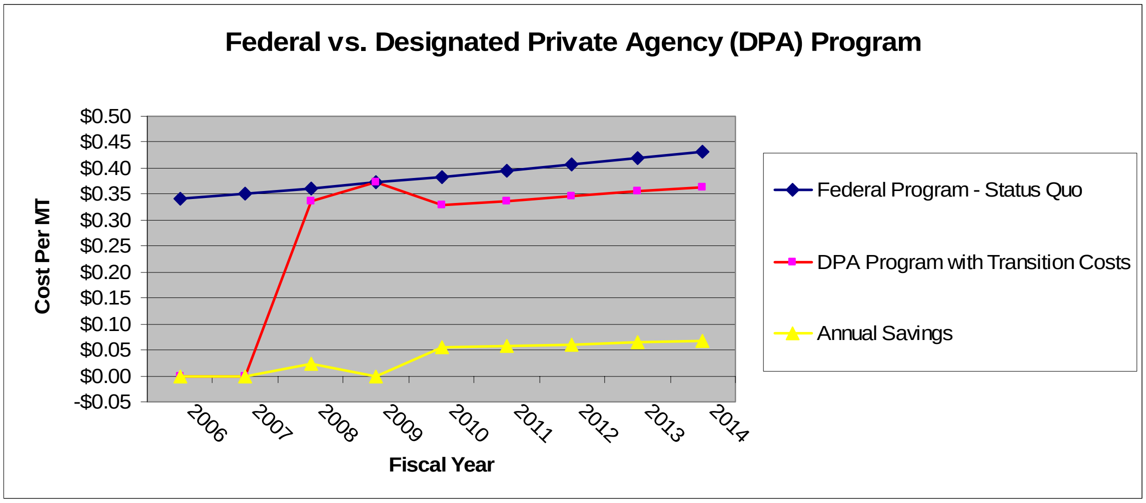
During the August 17 meeting, there was discussion on whether all savings incurred under the proposal would be derived from the direct program delivery level of the organization or at all levels. Of the estimated $26 million in savings, non-program delivery costs (program support, agency support, and Departmental charges) associated with the export program would decrease an average of 19% nationally while program delivery costs reduce 24.8%.

Based on the Federal grain inspection and weighing program's historical trend, GIPSA estimates that the cost of continued Federal provision of service would increase from the current cost of $0.34 per metric ton to $0.43 by FY 2014, assuming the inspection workforce remains unchanged and an inspection workload of 80 million metric tons each year. This estimated cost could vary as high as $0.45 or as low as $0.41 based on fluctuations in the work volume.

Under a DPA scenario, GIPSA estimates that the Federal oversight rate of $0.11 per metric ton would increase at the historical 3.03 percent annually while private agency costs will increase at a rate of 2.35 percent annually based on a historical 12-year average of the Consumer Price Index. Assuming a constant inspection workload of 80 million metric tons, the total DPA program cost would increase to $0.36 per metric ton by FY 2014, a difference of $0.07 per metric ton less than the projected Federal status quo fee. This scenario also includes the assumption that a 2-year transition period will be needed in FY 2008 and FY 2009 requiring an additional $6 million in program costs for Federal employee buyouts.

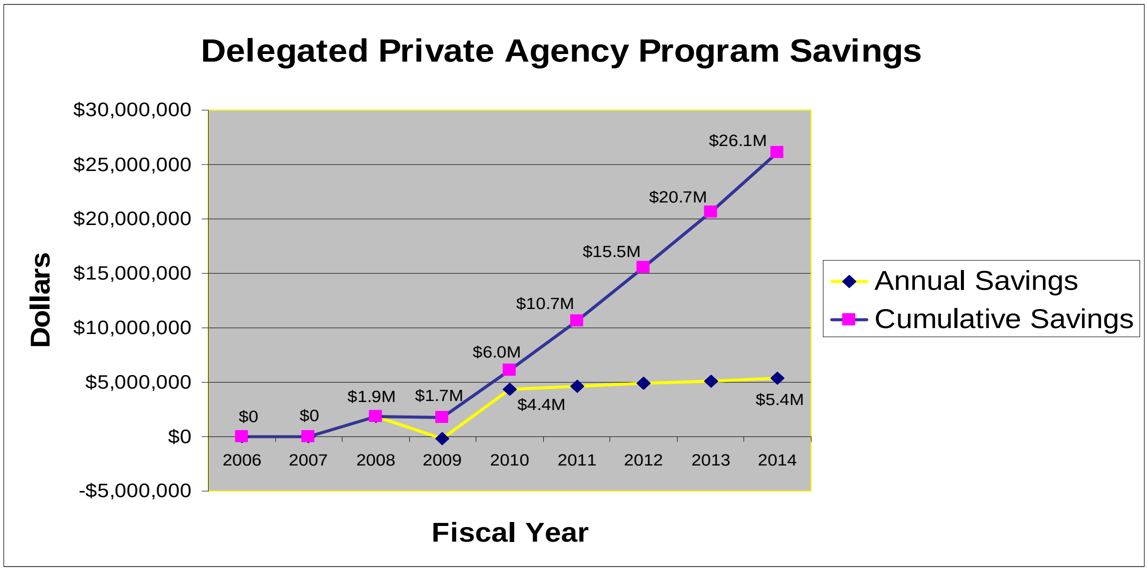
The comparison of a status quo Federal program to a DPA program using Agency estimates is shown in figure 5.

Figure 5



Once the transition to DPA is complete in FY 2009, we estimate that the change to third-party inspectors would lead to savings of approximately $0.05 to $0.06 per metric ton or $4-5 million annually based on 80 million metric tons inspected each year. Figure 6 illustrates this estimate using a historical inflation factor of 3.03 percent for the Federal export program and an inflation factor of 2.35 percent based on a 12-year average of the Consumer Price Index for the DPA service. Based on this data, the annual savings of $4 to $5 million could result in a cumulative savings of $26 million by fiscal year 2014.

Figure 6



Federal Employees Retirement System (FERS) versus Civil Service Retirement System (CSRS). The following table illustrates the percent of the 286 inspectors and technicians who are currently employed in the four GIPSA export offices that fall under CSRS and FERS respectively.

Export Office	CSRS (%)	FERS (%)
New Orleans	52.2	47.8
League City	71.4	28.6
Portland	67.3	32.7
Toledo	41.2	58.8
Total	**57.3**	**42.7**

If the new proposed authority were implemented at all four offices, GIPSA estimates a reduction of 187, or 65 percent, of Federal positions. Through the use of incentives, such as buyouts, GIPSA estimates the following percentages of employees covered by CSRS would elect to retire.

Export Office	CSRS (%)	FERS (%)	# Employees
New Orleans	70.9	29.1	127
League City	96.7	3.3	30
Portland	82.1	17.9	28
Toledo	50.0	50.0	2
Total	**76.5**	**23.5**	**187**

Retirement criteria. The following summarizes retirement criteria.

CSRS ELIGIBILITY REQUIREMENTS FOR RETIREMENT ON AN IMMEDIATE ANNUITY			
Type Of Retirement	Minimum Age	Minimum Service (Years)	Special Requirements
Optional	62 60 55	5 20 30	None None None
	50	20	You must retire under a special provision for law enforcement officers or firefighters.
	Any Age 50	25 20	You must be an Air Traffic Controller.
	Any Age 50	25 20	Your agency must be undergoing a major reorganization, transfer of function, or reduction-in-force as determined by the Office of Personnel Management.
Discontinued Service*	Any Age 50	25 20	Your separation must be involuntary and not for misconduct or delinquency. You must not have declined a reasonable offer of a position in your agency. A reasonable offer must be (1) in the same commuting area, (2) at the same tenure and work schedule, and (3) not lower than 2 grade levels below your current position.
Deferred	62	5	You must not have taken a refund at last separation from service

*Annual leave may be used to extend service to 20 or 25 years to qualify an employee for a discontinued service retirement.

<table>
<tr><th colspan="6">FERS ELIGIBILITY REQUIREMENTS FOR RETIREMENT</th></tr>
<tr><th>Type of Retirement</th><th>Year of Birth</th><th>Minimum Age</th><th>Minimum service for Unreduced Benefits (Years)</th><th>Minimum Service for Reduced Benefits**</th><th>Special Requirements</th></tr>
<tr><td rowspan="17">Optional and Deferred</td><td>N/A</td><td>62</td><td>5</td><td>N/A</td><td>None</td></tr>
<tr><td>N/A</td><td>60</td><td>20</td><td>N/A</td><td>None</td></tr>
<tr><td>Before 1948</td><td>55</td><td>30</td><td>10</td><td rowspan="15">**Reduction is 5 percent for each year the employee is under age 62</td></tr>
<tr><td>1948</td><td>55 & 2 mos</td><td>30</td><td>10</td></tr>
<tr><td>1949</td><td>55 & 4 mos</td><td>30</td><td>10</td></tr>
<tr><td>1950</td><td>55 & 6 mos</td><td>30</td><td>10</td></tr>
<tr><td>1951</td><td>55 & 8 mos</td><td>30</td><td>10</td></tr>
<tr><td>1952</td><td>55 & 10 mos</td><td>30</td><td>10</td></tr>
<tr><td>1953-1964</td><td>56</td><td>30</td><td>10</td></tr>
<tr><td>1965</td><td>56 & 2 mos</td><td>30</td><td>10</td></tr>
<tr><td>1966</td><td>56 & 4 mos</td><td>30</td><td>10</td></tr>
<tr><td>1967</td><td>56 & 6 mos</td><td>30</td><td>10</td></tr>
<tr><td>1968</td><td>56 & 8 mos</td><td>30</td><td>10</td></tr>
<tr><td>1969</td><td>56 & 10 mos</td><td>30</td><td>10</td></tr>
<tr><td>1970 & After</td><td>57</td><td>30</td><td>10</td></tr>
<tr><td rowspan="2">Optional/ Early Voluntary</td><td>N/A</td><td>50</td><td>20</td><td>N/A</td><td rowspan="2">The employee must retire under a special provision for law enforcement officers, firefighters, or air traffic controllers, or the agency must be undergoing a major reduction-in-force, major reorganization, or transfer of function as determined by the Office of Personnel Management</td></tr>
<tr><td>N/A</td><td>Any</td><td>25</td><td>N/A</td></tr>
<tr><td rowspan="2">Discontinued Service*</td><td>N/A</td><td>50</td><td>20</td><td>N/A</td><td rowspan="2">The separation must be involuntary and not for misconduct or delinquency. The employee must not have declined a reasonable offer of a position in his or her agency. A reasonable offer must be (1) in the same commuting area (2) a position for which the employee is qualified (3) not lower than two grade levels below the employee’s current position.</td></tr>
<tr><td>N/A</td><td>Any</td><td>25</td><td></td></tr>
</table>

*Annual leave may be used to extend service to 20 or 25 years to qualify an employee for discontinued service retirement.

On a national average, benefits for CSRS employees equal 17% of their annual salaries versus 30% for FERS employees. Consequently, the salary savings derived from replacing a senior inspector under CSRS with a new inspector under FERS is minimized by the higher benefit costs. For example, salary and benefits for a senior inspector under CSRS (GS-9, step 10) equals $63,531 ($54,300 salary + $9,231 benefits). The salary and benefits for a new inspector (GS-9, step 1) under FERS equals $54,304 ($41,772 salary + benefits $12,532) or $9,227 (14.5%) less than a senior inspector under CSRS. These are national averages since locality adjustments result in different pay rates in the four export offices. The following chart shows the differences between the relative employees.

	Salary	Benefits		
CSRS employee GS9 Step 10:	$54,300	$9,231	Total Salary + Benefits =	$63,531
FERS employee GS9 Step 1:	$41,772	$12,532	Total Salary + Benefits =	$54,304
Difference	-$12,528	+$ 3,301	Net difference:	-$ 9,227
	(savings)	(increase)		(savings)

Options for employees impacted by implementation of the proposed authority. GIPSA will make very reasonable effort to minimize the impact of implementing the new authority on employees. Retirements throughout the entire agency (extending beyond the export offices referenced above) will create new opportunities for some employees that could mitigate the impact of the new authority. Furthermore, GIPSA’s future oversight responsibilities under the new authority would also create new opportunities for current employees.

Employees who elect to accept a buyout and retire with full Federal retirement would also be eligible to work for a private firm that seeks authority to provide export inspection service. Federal inspectors will be well-positioned to enter the private workforce in this work environment that will be in need of highly skilled grain inspectors. The following chart illustrates the cumulative, long-term impact of four potential scenarios on employees based on the decisions they make. The Portland and New Orleans offices are used in the scenarios to show the differences due to locality pay. Under options 1, 2, and 3, an employee elects to retire from USDA at 55 years of age and is hired by a private inspection firm until the age 62. Under option 4, an employee continues to work for the Federal government until age 62. For the sake of all scenarios, the employee would receive an annuity until age 78.

Employment Compensation Scenarios

	Scenario #1 Employee retires from USDA at 55, works for private inspection firm until 62, receives annuity until 78.	Scenario #2 Employee retires from USDA at 55, works for private inspection firm until 62, receives annuity until 78.	Scenario #3 Employee retires from USDA at 55, works for private inspection firm until 62, receives annuity until 78.	Scenario #4 Retires from Federal government at 62, receives annuity until 78.
	(Buyout/Private pays $13/hour)	(Buyout/Private pays $18/hour)	(Buyout/Private pays government rate)	No Buyout
Salary				
Government Wages				
Portland	$0	$0	$0	$437,020
New Orleans	$0	$0	$0	$421,143
Private Wages				
$13/hour	$203,843	$0	$0	$0
$18/hour	$0	$282,244	$0	$0
Portland Rate	$0	$0	$423,351	$0
New Orleans Rate	$0	$0	$407,972	$0
Retirement Income				
Government Buyout	$25,000	$25,000	$25,000	$0
Government Pension				
Portland	$992,560	$992,560	$992,560	$952,919
New Orleans	$956,501	$956,501	$956,501	$918,301
Total Income (Pension, Wages, Buyout)				
Portland				
Government	$1,017,560	$1,017,560	$1,017,560	$1,389,939
Private	$203,843	$282,244	$423,351	$0
Total	**$1,221,403**	**$1,299,804**	**$1,440,911**	**$1,389,939**
New Orleans				
Government	$981,501	$981,501	$981,501	$1,339,445
Private	$203,843	$282,244	$407,972	$0
Total	**$1,185,345**	**$1,263,746**	**$1,389,473**	**$1,339,445**

Explanation of Scenarios

Scenario #1	Employee retires when he/she turns age 55, receives $25,000 government buyout, is rehired by private firm, which pays $13/hour with 2.35% annual pay increases, and works until they turn age 62. The employee receives government pension (starting at age 55) including all retiree cost-of-living adjustments (COLAs) (2.7% annually) until they turn age 78.
Scenario #2	Employee retires when he/she turns age 55, receives $25,000 government buyout, is rehired by private firm, which pays $18/hour with 2.35% annual pay increases, and works until they turn age 62. The employee receives government pension (starting at age 55) including all retiree COLAs (2.7% annually) until they turn age 78.
Scenario #3	Employee retires he/she turns age 55, receives $25,000 government buyout, is rehired by private firm, which matches the government salary with 2.35% annual pay increases, and works until they turn age 62. The employee receives government pension (starting at age 55) including all retiree COLAs (2.7% annually) until they turn age 78.
Scenario #4	Employee works for Federal government until they turn age 62, receives annual COLAs (3.4% annually) while employed, and receives government pension (starting at age 62) including all retiree COLAs (2.7% annually) up until they turn age 78.

Further information on calculations for above scenarios:

- High-three salary for computation of CSRS retirement benefits at age 55 with 30 years service:
  Portland: $56,347
  New Orleans: $54,300
  Retirement Benefit based on 56.25% of salary using the formula for basic annuity.

- High-three salary for computation of CSRS retirement benefits at age 62 with 37 years service:
  Portland: $68,864
  New Orleans: $66,362
  Retirement Benefit based on 70.29% of salary using the formula for basic annuity.

- The general formula for computing the basic annuity under CSRS is as follows:
  1.5 percent x the high 3 average pay x service up to 5 years plus
  1.75 percent x the high 3 average pay x the number of years of service between 5 and 10 plus
  2 percent x the high 3 average pay x all service over 10 years