

**Forest Service Handbook  
National Headquarters - Washington Office Washington, DC**

**Forest Service Handbook 1409.15 – Auditing Concessions Handbook  
Chapter 10 - Graduated-Rate Fee System**

**Amendment:** 1409.15-Amend 5

**Effective date:** June 1977

**Duration:** This amendment is effective until superseded or removed. **Superseded Directive:**

**Approved by:**

**Date approved:**

**Responsible Staff:**

**Explanation of changes:**

## Table of Contents

10.2 - Objective .....	4
10.3 - Policy .....	4
10.5 - Definitions .....	5
11 - System Characteristics .....	6
12 - Forms and Worksheets .....	7

The graduated-rate fee system (GRFS) is the fee structure adopted for use by the Forest Service for all permitted commercial public-service operations. The principles of GRFS will be applied to most commercial permits either directly or as the bases for flat fees or the percentage applied to sales. Exceptions include some outfitter-guide, service station, and temporary permits. It is the Forest Service goal to use GRFS for all commercial public-service uses. The system is to their benefit because it (1) recognizes year-to-year changes in productivity, such as sales and investment in assets (GFA); (2) recognizes the difference in profitability of various classes of business such as restaurant versus ski lift; and (3) is self-adjusting to reflect business fluctuation.

Permittees not on GRFS will be encouraged to accept the system at the time of fee adjustment provided by permit terms. Most should have been converted to GRFS since the system was adopted on July 1, 1968, for other than winter sports and July 1, 1972, for winter sports. Where GRFS is not adopted, all the principles of the system will be used to establish the percentage rate applied to sales during each succeeding 5-year period.

It is a long-established policy of the Department of Agriculture that the recreational resources of the National Forests are to be made available for public use and enjoyment. The administration of that use--and providing the facilities that are sometimes necessary to make it possible--have long been integral considerations in the planning that undergirds the multiple use objectives toward which the National Forests are managed.

During the more than half century of planning for and administering this recreation use, a number of basic concepts have gradually evolved. Key among these is one that recognizes that National Forest visitors, in order to have a fully rounded outdoor recreation experience, commonly need a range of services of the type which is normally better provided by private business than by the Government. Examples are lodges, resorts, stores, service stations, winter-sports developments.

When developments or services of this type can be based on privately owned land that is encouraged. But when private land is not available and the developments or services are needed to round out the recreation use of National Forest land, public land may be made available for the use of private businessmen in providing them. Such public service business ventures are authorized with the understanding that they will operate under Forest Service supervision. Although it is readily recognized that an opportunity to make a reasonable profit is necessary in any business, such ventures are authorized on National Forest land only to fulfill a public need. They are not authorized merely to provide a profit-making business opportunity.

The Forest Service graduated-rate fee system provides a relatively simple method of fixing fees. Its objectives are fees that will be fair to both the Government and the permittees, and which will allow reasonable charges to National Forest recreationists. Such fees will fluctuate to reflect variations in the profit posture of permittees resulting from additional investments, good or poor seasons, or other causes. The system's rate schedules are set at such a level that a permittee of average operating efficiency will in a normal season experience about a 15

percent return on his invested capital before interest charges when his sales are equal to twice the break-even point. The GRFS recognizes the fact that a permittee is entitled to a reasonable return on his investment. It also recognizes that returns to the permittee have a direct relationship to the ratio of sales to investment. The system further recognizes that all businesses have a point where income and expenditures are in balance and profit begins to accrue and while these break-even points vary between kinds of businesses, they are normally predictably consistent within any one kind of business.

The system provides a schedule of rates for the several kinds of business involved in the mixed-business enterprises so often developed to serve public needs under National Forest permit. Rates for such things as groceries, service for cars, food service, general merchandise, liquor service, outfitter-guide service, room services, cabin rentals, and other development of fees for various mixes of these businesses or where they are operated as a single business. The system also provides special rate schedules to be applied to packer-outfitter and service stations.

## **10.2 - Objective**

To establish fees for National Forest commercial public service special use permits commensurate with the value of the use authorized.

## **10.3 - Policy**

1. Forest Service fees for commercial public service special use permits shall:
  - a. Recognize a public need for the service and facilities authorized.
  - b. Reflect the value of the use authorized.
  - c. Afford a permittee of average operating efficiency an opportunity to make a reasonable profit on his invested capital and time.
2. The Forest Service graduated rate fee system is based on several fundamental premises. They are:
  - a. National Forest commercial-public-service permittees should pay fees reasonably comparable to the rent paid by the industry as a whole for the same kind(s) of business.

However, since the fees for use of National Forest land should reflect the public need for the services or facilities provided, they need not be all that the traffic will bear.

- b. National Forest commercial-public-service permittee sales may be greatly affected by weather and frequently by adverse natural forces such as slides, avalanches, fires, and floods. An equitable fee must reflect these fluctuations over which the permittee has no control.

- c. The volume of business generated from a permittee's investment of time and money varies with the productivity of the site involved, and fees should be assessed accordingly.
- d. For fee purposes, the dollar value of a permitted use can be measured by the ratio of the permittee's sales to his gross fixed assets.
- e. Established-fee rate schedules are based on averages that take into account all levels of site productivity and permittee success. Therefore, since situations similar to that of an industrial permittee have already been considered in setting the overall rate schedules, it is not possible to consider the profit experience of any one individual permittee in the development of rates applicable to his permit. Rather, the rates must be those that are most appropriate to averages, which already take into account all levels of success in sites and permittees.
- f. To ensure continuing service to the public, it is desirable, whenever possible, that Forest officers develop presale contacts with prospective purchasers of existing permittee operations to make sure they understand the terms and conditions of the permit under which they will have to operate.

## 10.5 - Definitions

The factors that must be developed or fixed for each permit to be used in fee calculations are:

1. Gross Fixed Assets. Gross fixed assets (GFA) are the total of the original undepreciated cost of the current permittee's investment in, not the present value of, improvements and fixtures plus the cost of equipment necessary to generate sales and other incomes; that is the physical plant. It does not include minor fixtures, equipment, inventories, or supplies, which are normally considered as expendable or consumable, nor does it consider the value of the business name, or goodwill, commonly enjoyed by a permittee. In this light, in the event of the sale of a permitted operation, its GFA seldom will be synonymous with its sales price. This GFA value is not depreciated. It is, however, updated as new improvements are added or old ones are modernized. Gross fixed assets is commonly developed through the use of permittee's records, but other pertinent factors may be considered by the Forest Service officer whose final responsibility it is to set the figure.

2. Sales. The gross receipts or revenue received plus the value of gratuities from those operations authorized by the special-use permit except commissions and franchise payments, the fees on which are developed separately. The information comes from the permittee's business records, which are subject to audit by Forest officers. The system recognizes a consistent relationship between sales and GFA, and this in turn reflects the value of the site and/or use.

3. Break-even Point. This is the point in a business where sales cover costs and the business begins to show a profit. It is expressed as a ratio, or percentage, of sales to GFA.

Break-even points vary between different kinds of business, but, in any one business, they are predictably consistent. As used in the graduated-rate fee system, the break-even point for a single-business operation, a weighted, or composite, break-even point is established for any combination of businesses. The relationship of sales to the break-even point has a direct bearing on the rate to be used. A high break-even point indicates a low margin for profit and relatively low fees. A low break-even point reflects a high margin for point and a relatively higher fee rate is appropriate.

4. Graduated Rates. Graduated rates are to be taken from the rate schedule, which the system provides. The schedules were developed following an analysis of the performance records of a range of permitted operations and comparable operations on private land. They are for Service-wide use as standard rates. The key elements of the rate schedules are:

a. Rate Base. The rate base is not a fee rate in itself. Rather, it is a schedule indicating the percentage of sales that can appropriately be paid as a fee for each of the various kinds of business by a permittee of average operating efficiency and still yields a reasonable return on his investment, when his sales are equal to twice his breakeven point. The rate base was conceived as a device to simplify procedures in negotiations, bidding, and fee calculation. It is used only in developing the first two of the three rates used in calculating fees. The application of these two rates results in an average fee rate less than the rate base as long as sales do not exceed twice the break-even point. The two rates developed from the rate base are:

(1) First Rate. A fee rate set at 50 percent of the rate base. It is applied to all sales up to the break-even point.

(2) Second Rate. A fee rate set at 150 percent of the rate base. It applies to all sales between the breakeven point and twice the break-even point.

b. Third Rate. A fee rate applied to all sales above twice the break-even point. It can be considered as a balance-of-sales rate, which becomes effective only when sales exceed twice the break-even point.

## **11 - System Characteristics**

The graduated aspect of the fee is developed by applying a schedule of variable percentage rates to sales and other qualifying income.

It recognizes that a permittee's GFA; the investment he is willing to make in developing the land, constructing facilities, and acquiring equipment; and the volume of sales generated by this investment are guides in the selection of the level of rates to apply. As the ratio of sales to GFA increases, the percentage applied to sales increases and the Government shares in the increasing business by receiving an increased fee. Fees thus developed fluctuate to reflect variation in profit as a result of either added investment, good, and poor seasons, or for other causes. Since the system reacts to the drain on capital for modernization or expansion, it

encourages such investments by automatically reducing fees during periods of initial or additional development.

The system, with its built-in graduation of rates as sales rise above or drop below the break-even point, automatically takes into consideration increases or decreases in profitability of enterprises. Because of this self-adjusting feature, a review of fees at periodic intervals is not necessary.

## **12 - Forms and Worksheets**

Exhibit 01 presents examples of worksheets that may be used in the administration and audit of commercial special-use permits. Each worksheet has its valid use to the auditor. For example, the summary of collections worksheet will reflect whether and-rental-fee payments are current. The audit summary work worksheet summarizes differences between the concessioner's sales report and his accounting records. The verification of gasoline tax and State sales tax returns worksheets have a dual use. They will reflect whether the correct deductions of taxes paid were taken by the concessioner, as well as whether or not the proper amounts of sales for which these taxes were imposed were reported.

**12 - Exhibit 01**

PERMITTEE <u>XYZ Ski Resort</u> SUMMARY OF COLLECTION Worksheet PERIOD COVERED 11/1/73 - 10/31/77				
DATE PERMIT ISSUED 6-14-58		MINIMUM FEE \$1,550.00		PERCENTAGE GRFS
BILL NIMBER	DESCRIPTION	DATE ISSUED	DATE PAID	AMOUNT
13-137	Minimum Fee	11/1/73	12/7/73	\$1,550.00
13-119	Operations 11/21/73 - 11/31/74	2/25/74	3/30/74	\$4,261.00
13-516	Operations 2/1/74 - 3/31/74	4/24/74	5/20/74	\$5,677.00
13-731	Operations 4/1/74 - 5/17/74	6/3/74	6/29/74	\$4,938.00
13-118	Minimum Fee	11/1/74	12/2/74	\$1,550.00
13-300	Operations 11/29/74 - 1/31/75	2/20/75	3/8/75	\$3,875.00
13-493	Operations 2/1/75 - 3/31/75	4/22/75	5/17/75	\$4,917.00
13-682	Operations 4/1/75 - 5/26/75	6/12/75	7/1/75	\$5,212.00
SUMMARY <div style="display: flex; justify-content: space-between; margin-top: 10px;"> <div>           FY 1974            FY 1975            FY 1976            FY 1977         </div> <div>           \$ <u>16,426.00</u>            \$ <u>15,554.00</u>            \$ _____            \$ _____         </div> </div>				



## 12 - Exhibit 01--Continued

USDA - FOREST SERVICE FEE CALCULATIONS FOR CONCESSION PERMIT'S			A. PERMITTEE (Name and address): XYZ Ski Resort Anywhere, USA			B. LUR IDENTITY CODE <u>70</u> -----		
C. PERIOD: 11/1/76 - 10/31/77			D. FEE CALCULATION SALES: \$870,00			E. GROSS FIXED ASSETS (GFA): \$1,000,000		

SOURCE OF SALES	SALES FOR FEE CALCULATION		BREAK-EVEN POINT (SALES TO GFA)		RATE BASE		BALANCE OF SALES RATE	
	AMOUNTS	%	%		%		%	
	I	II	III	IV	V	VI	VII	VIII
Service Food	\$174,000	20	70	1400	1.25	2500	1.50	3000
Service Rooms	\$130,000	15	40	1400	4.00	6000	5.30	7950
Rentals	43,500	5	30	150	4.50	2250	5.95	2975
Lifts, Tows & Ski School	522,000	60	20	1200	2.00	12000	5.00	30000
<b>TOTAL</b>	<b>\$ 870,000</b>	<b>100</b>		<b>3350</b>		<b>22750</b>		<b>43925</b>

ITEMS	RATES	SALES	FEE
1. COMPOSITE BREAK-EVEN POINT	34		
2. COMPOSITE RATE BASE	2.28		
3. COMPUTATION OF BASIC FEE	1.14	\$ 340,000	\$ 3,876.00
a. On sales below break-even			
b. On sales from break-even to twice break-even	3.42	340,000	11,628.00
c. On sales greater than twice break-even	4.39	190,000	8,341.00
4. TOTALS (Sales and Basic Fee)		\$ 870,000	\$ 23,845.00
5. WEIGHTED AVERAGE FEE RATE	2.74		
6. SUBCHARGE (if any)	$\$ 23845.00 \times \frac{0.5}{(TOTAL\ BASIC\ FEE)} =$		\$ 1,192.25
7. COMMISSIONS AND OTHER INCOME	$\$ \times \frac{0.5}{(COMMISSIONS) (WEIGHTED\ AVG.\ FEE\ RATE)} =$		\$
8. FRANCHISE PAYMENTS	$\$ \times \frac{0.5}{(FRANCHISE\ PAYMENTS) (FRANCHISE\ RATE)} =$		\$
9. FEE EARNED (G/T payments to be billed separately)----		▶	25,035.25
10. MINIMUM FEE PAID -----		▶	1,550.00
11. TOTAL FEE DUE -----		▶	25,037.25
12. PAYMENT TO DATE including credits -----		▶	24,550.00
13. BALANCE DUE/CREDIT) ----- (Strike Out One)		▶	487.25

PREPARED BY:	DATE	CHECKED BY:	DATE
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(See Reverse for Instructions)
 2700-19 (7/71)

## 12 - Exhibit 01--Continued

### INSTRUCTIONS

1. Fill out block A-E at top of form.
2. Fill in Sources of Sales, Breakeven Points (column III); Rate Bases (column V), and Balance of Sales Rates (column VII from permit fee clauses.
3. From permittee's report of sales, determine dollar amount of sales for each kind of business and enter in column I.
4. Determine the percentage that the sale for each kind of business is of total sales. Enter these percentages in column II rounded off to the nearest whole percent.
5. Multiply column III by column II and enter the result in column IV without decimals. Show a total for the column at the bottom. Point off four places. This is the composite breakeven point. Round it off to the nearest whole percent, dropping any amount less than 0.5 percent, and enter it on line 1 under Rate.
6. Multiply column V by column II and enter the products in column VI without decimals. Show a total for the column at the bottom. Point off four places. This is the composite rate base. Round it off to the nearest hundredth of a percent and enter it on line 2 under Rate.
7. Enter 50% of line 2 rate on line 3a under Rate and 150% of line 2 rate on line 3b under Rate.
8. Multiply the entry in block E by the percentage on line 1. If the result is greater than the entry in block D, enter the block D amount on line 3a under Sales. If the result is less than block D, enter the result on line 3a under Sales.
9. Subtract entry on line 3a under Sales from total sales block D. If the difference between line 3a entry and block D is equal to or less than line 3a, post the difference to line 3b under Sales. If the difference is greater than line 3a, post an amount equal to 3a entry to line 3b. Post any balance of sales over line 3a and 3b total to line 3c under Sales. Total the result and post on line 4. Line 4 total sales must equal the block D entry.
10. If an entry is made under Sales on line 3c, multiply column VII by column II and enter the result in column VIII without decimals. Show a total for the column at the bottom. Point off four places. This is the composite balance of sales rate. Round it off to the nearest hundredth of a percent and enter it on line 3c under Rate.
11. Multiply line 3a Sales by line 3a Rate and post the result to line 3a, Fee. Follow the same procedure for line 3b and 3c as appropriate. Post basic fee to line 4.
12. Divide line 4 Sales into line 4 Fee and post weighted average fee rate to line 5 under Rate.
13. If surcharge applies, enter basic fee and surcharge percentage on line 6. Multiply and enter surcharge on line 6 under Fee.
14. Post commissions and other income to line 7. Multiply by weighted average fee rate line 5. Post the result on line 7 under Fee.
15. Post franchise payment to line 8, multiply by percentage due the government. Post fee due on line 8 under Fee.
16. Add fees on lines 4, 6, 7, and 8 and post total to line 9 under Fee.
17. Enter minimum fee paid on line 10 under Fee.
18. On line 11, enter from line 9 or 10 whichever is larger.
19. On line 12, enter payments made to date including credit from previous year.
20. On line 13, enter the difference between line 11 and 12 and strike out the inappropriate word.

## 12 - Exhibit 01--Continued

AUDIT SUMMARY		Worksheet	
PERMITTEE <u>XYZ Ski Resort</u>	AUDITOR <u>Phil Larson</u>		
TYPE OF PERMIT _____	DATE OF AUDIT <u>March 3-6, 1977</u>		
CLASSIFICATION _____	PERIOD COVERED <u>11/1/75 - 10/31/76</u>		
CASE DATE _____			
	GROSS RECEIPTS STATEMENT	PERMITTEE'S ACCOUNTING RECORDS	DIFFERENCE
GROSS RECEIPTS (INCLUDING, TAXES COLLECTED)	796,850	832,714	35,864
LESS: RETURNED MERCH, REFUNDS, ALLOW			
STATE SALES TAXES	11,639	11,639	-----
FEDERAL EXCISE TAXES	977	977	-----
FEDERAL RET. EXCISE TAXES	-----	-----	-----
STATE & FEDERAL GASOLINE TAXES	1,653	1,653	-----
TOTAL DEDUCTIONS	14,269	14,269	-----
GROSS RECEIPTS LESS DEDUCTIONS	782,581	818,445	35,864
OTHER INCOME	1,670	3,314	1,644
TOTAL RECEIPTS SUBJECT TO FEE	784,251	821,759	37,508
FEE RATE GRFS - See Form 2700-19			
AMOUNT OF FEE			
1. WAS THE PERMITTEE PRESENT DURING THE AUDIT?			YES
2. WERE THE GROSS RECEIPTS VERIFIED BY COMPARISON WITH THE PERMITTEE'S PROFIT AND LOSS STATEMENT?			YES
3. WERE THE ACCOUNTING RECORDS AND THE BASIC SUPPORTING DOCUMENTS CONSIDERED ADEQUATE?			NO
IF NOT, GIVE REASONS AND MAKE RECOMMENDATIONS. _____ _____ _____			
4. WHAT PORTION OF THE PERMITTEE'S OPERATION IS UNDER SUBLEASE?			
5. WERE THE GROSS RECEIPTS OF THE SUBLESSEE, INCLUDING COIN MACHINES, REPORTED BY?			YES

**12 - Exhibit 01--Continued**

VERIFICATION OF GASOLINE TAX DEDUCTION WORKSHEET					
Period	Accounting Records		Purchase Invoice	State Sales Tax Returns	Difference
	Gas Sales	Gallons (Meter Reading)	Gallons	Gas Sales	
11/75	\$828.40	1317	1600	\$773.90	\$54.50
12/75	959.10	1520	1600	891.60	67.50
1/76	1324.90	2093	2500	1255.10	69.80
2/76	1340.40	2131	2000	1243.30	97.10
3/76	1552.20	2456	2500	1450.50	101.70
4/76	1141.60	1815	1800	1057.20	84.40
5/76	714.40	1134	1000	643.90	70.50
6/76	297.80	472	300	207.70	90.10
7/76	264.80	419	300	211.00	53.80
8/76	251.10	398	500	143.80	107.30
9/76	384.90	610	500	195.40	189.50
10/76	595.00	943	1000	447.50	147.50
	\$9,654.60	15,008	15,600	\$8,520.90	\$1,133.70
(Deductible State Fuel Tax 7¢ Gal. Federal Fuel Tax 4¢ gallon.)					
Amount of Tax Deducted on Gross Receipts Statement \$1,651.00					
Difference \$194.00					
<u>1/</u> Represents gas used by employee for personal and business use off highway.					
<div> <div> <u>.6433/gal.</u>  15008/ 9,654.60 </div> <div> <u>1762 gal. x .11¢/gallons</u> \$193.82  6433/ 1,133.70 </div> </div>					

## 12 - Exhibit 01--Continued

	PERIOD COVERED	NON-TAXABLE SALES	NON-TAXABLE 1/ INCLUDING TAXES	TAXABLE SALES	NOT PURCHASED FOR RESALE	SALES TAX PAID
	January	1097.00	-----	4638.00	944.00	334.92
	February	751.00	-----	5162.00	1015.00	370.62
1st	March	843.00	-----	5417.00	1291.00	400.48
	April	691.00	-----	4891.00	1126.00	361.02
	May	217.00	-----	3175.00	1004.00	250.74
2nd	June	180.00	-----	1626.00	417.00	122.58
	July	146.00	-----	1437.00	395.00	109.92
	August	172.00	-----	1729.00	473.00	132.12
3rd	September	191.00	-----	1525.00	516.00	122.46
	October	266.00	-----	1819.00	621.00	146.40
	November	392.00	-----	2732.00	734.00	207.76
4th	December	1235.00	-----	3915.00	1157.00	304.32
	Total	6,181.00	-----	38,066.00	9,693.00	2,865.54
1/ You would expect this column to be zero unless taxes paid unavailable or incorrectly.			Less tax on items not purchased for resale			581.58
2/ Applicable on, believe to pay or late payments.			Less penalties and interest			----- 2/
3/ Under deductible by permittee. Auditors should Compare taxable and non-taxable sales totals to concessions sales reports to establish whether proper sales totals were reported.			Sales tax deducted on report of net sales			1,837.51
			Difference			----- 2/
						446.45 3/