

ECONOMIC IMPACT STATEMENT

Guam Customs and Quarantine Agency
Customs, Agriculture, and Quarantine Inspection Service Charge (CAQISC) Program

1.0 Purpose

The following Economic Impact Statement (EIS) outlines the Guam Customs and Quarantine Agency's (CQA) proposal to amend fees in relation to Cargo Clearance Services at the A.B. Won Pat Guam International Airport and the Jose D. Leon Guerrero Commercial Port of Guam, among others. The proposed rate is projected to take effect January 1, 2011. This change to the Customs, Agriculture, and Quarantine Inspection Service Charge (CAQISC) Program will necessitate amendments to the CAQISC Program Rules and Regulations promulgated pursuant to 5 GCA, Ch. 73 and all applicable subsections.

Guam is a major transshipment point in the Pacific and serves as a gateway for Micronesia. On average, more than 1.2 million metric tons are processed through the Commercial Port of Guam and the Guam International Airport. Guam's own organic growth combined with the ongoing military build-up propelled in large part by the proposed relocation of 8,000 marines and their dependents to the island is projected to usher in an era of unprecedented economic prosperity. In anticipation of this population explosion, the projected increase in cargo movements into the island is expected to put considerable demands on CQA's operational requirements.

To meet the projected cargo demands, CQA is proposing to adopt new fees and a new rate setting methodology for Cargo Clearance Services as the current fee structure has not been revised since the inception of P.L. 23-45 and subsequent repeal and reenactment under P.L. 23-96 in 1995. Furthermore, the current structure does not allow the agency to fully recover the cost of operations for the services provided. The proposed changes will improve user-pays equity at the 'activity' level within the programs. Moreover, the fee changes proposed in this EIS will ensure the government's cost recovery objectives are achieved for CQA's Cargo Clearance Services and remain consistent with the legislative intent of P.L. 23-45 while providing operational flexibility for the agency.

In accordance with 5 GCA Chapter 9 §9301, it is required that any changes related to rules, regulations or fee increases must be accompanied by an economic impact statement subject to review and approval by the Governor and the Legislature. The economic impact statement shall address:

1. The purpose and the need for the rule or regulation;
2. The financial impact of the proposed rule or regulation;
3. Any potential increase or decrease in the cost of living on Guam;
4. Any increase or decrease in the cost of doing business as an enterprise or industry on Guam;
5. Any direct or indirect impact upon employment on Guam;
6. Any adverse or beneficial economic impact which is attributable to the proposed rule or regulation.

This report presents the information requested by the Legislature.

1.1 Background

In 1994, as promulgated under P.L. 22-112, the Guam Customs and Quarantine Agency (CQA) became an independent arm of the Government of Guam. Charged with the mission of protecting Guam's borders and enforcing laws in relation to the inspection and clearance of passengers, cargo, aircrafts and vessels at Guam's ports of entry, the mission of the agency is to:

Enhance and protect the quality of life for the people of Guam by:

- Preventing the importation of illicit narcotics.
- Protecting Guam's flora and fauna from the introduction of injurious pests and diseases.
- Preventing the introduction and spread of quarantined and communicable diseases.
- Reducing motor vehicular accidents through the enforcement of Federal Motor Vehicle Safety Standards and Federal Air Pollution Control Regulations on all imported vehicles.
- Enforcing substantive requirements relative to foreign and interstate commerce of firearms, ammunition and explosives.
- Generating government revenue through the assessment of the Use Tax Law on imported items and commodities.
- Protecting legitimate business by enforcing copyright, patent, trademark, and Guam Product Seal regulations at all ports of entry.

- Deterring fraudulent and illicit activities in interstate commerce through the apprehension of violators for judicial prosecution.
- Providing assistance to other government law enforcement and regulatory agencies in the enforcement of local and federal rules, regulations, and laws.
- Controlling exports of commodities or technical data for the purpose of protecting national security, short supply and foreign policy.

1.2 Current Fee Structure

In 1995, P.L. 23-45 which effectively established the Customs, Agriculture, and Quarantine Inspection Service Charge (CAQISC) Program provided a source of funding for CQA's activities and allowed the agency to generate revenue to recover the costs incurred to provide, maintain and conduct its operations at the A.B. Won Pat Guam International Airport and the Jose D. Leon Guerrero Port of Guam. Furthermore, this program strived to remove any reliance of funding upon the Government of Guam's General Fund. The breakdowns of fees are as follows:

- For Air Carrier Services, an interim fee of \$5.00 was assessed for each airline passenger arriving at the A. B. Won Pat Guam International Airport. In FY 2006, the fee was revised to \$6.36. These fees are reflective of the actual costs associated with providing, maintaining, and operating the service charge facilities which relate to air carriers' operations.
- For Sea Passenger Inspection Services an interim fee of ten U.S dollars (\$10.00) for the processing of passengers arriving via ocean vessel at the Jose D. Leon Guerrero. This fee has been unchanged and has remained in effect since 1995.
- For Cargo Clearance Services at the A.B. Won Pat Guam International Airport or the Jose D. Leon Guerrero Commercial Port of Guam an interim fee of five U.S. dollars (\$5.00) per airway bill or bill of lading for the processing of documentation required for the entry of air or sea cargo, and up to twenty five U.S. dollars (\$25.00) per airway bill or bill of lading for consolidated consignments (up to five or more) is assessed. This fee has been unchanged and has remained in effect since 1995.

Since 2006, the CAQISC program has generated approximately \$32.2 million in revenue or an average of \$8 million per year. This has allowed CQA to cover their overall cost of operations year-over-year. This includes air cargo and maritime activities, whose combined revenues averaged approximately \$417,000 each year, have been insufficient

to cover their respective unit's combined expenses of approximately \$947,000 each year. A difference of approximately \$530,000 each year!

In light of the above, CQA submits this report in accordance with 5 GCA Chapter 9 § 9301 to exercise its authority to amend its rates and charges related to the CAQISC program for Cargo Clearance Services at the A.B. Won Pat Guam International Airport and the Jose D. Leon Guerrero Commercial Port of Guam. Fees and charges for these services have remained unchanged since the inception of the program in 1995.

1.3. Methodology and Study Approach

For purposes of expediting this economic impact study, secondary information contained in the following reports were used considering that much of CQA's workload along with consumer pricing has remained relatively stable since the publication of these documents:

- Jose D. Leon Guerrero Commercial Port of Guam Master Plan Update 2007
 - prepared by PB International, PB International, Inc. in association with BST Associates,
- Guam Customs and Quarantine Agency Cost of Service Study, Fee Assessment and Development and Consultation Services, August 2008
 - presented by KPMG Consulting/Guam Systems, Consulting, November 2001
- A.B. Won Pat International Airport Authority, Guam Airline Activity FY 2001-2009
 - Prepared by GIAA Expansion Office, updated March 15, 2010

The information contained within the above reports provided for a review of CQA's organizational structure and internal processes and the tools of Process Modeling, Workload Analysis, Activity Based Costing, Benchmarking and Customer Value Analysis that were used to simulate the impact of the proposed fee changes to the CAQISC program.

2.0 Financial Impact on CQA

The proposed changes to the CAQISC program is expected to result in positive financial outcomes and provides CQA a vehicle to effectively recover the costs of its operations in providing cargo clearance services. In addition, CQA will have greater flexibility to allocate its resources and personnel based on their operational objectives. Moreover, as they become more self-reliant and independent, the agency will have the ability to effectively plan for undertaking capital improvement programs or projects that are currently constrained due to budget limitations or can only be executed with federal funding or other available grant programs.

Based on the assumptions contained in the proposed amendments to the CAQISC program, operating costs, revenues and cash flows are expected to reflect positive results.

2.1 Increased Revenue/Positive Cash Flow

The CAQISC program provides services on a fee-for-service basis. In the case of the air carriers this fee is adjusted periodically depending on the operational requirements anticipated by the agency, with the last adjustment made in 2006. In terms of cargo clearance services this fee has not been revised since the program's inception in 1995.

According to PB's Port Master Plan report, cargo volumes are projected to increase dramatically from 2010 through 2016. Container volumes are projected to increase as much as 75% and break-bulk volumes are projected to increase as much as 125%. These levels are expected to remain 50% higher than figures reported for 2007 once the initial phase of the military build-up concludes.

By changing the rate setting methodology from a fixed cost to a per unit allocation method CQA would be able to assess its fees in relation to the amount of resources utilized in conducting the cargo clearance services. This would ensure the agency effectively recovers its costs as the revenues generated would be in direct proportion to the amount of resources expended in the cargo clearance process.

2.2 Effective Cost Allocation

Because the agency's core finance and budgeting systems are not structured around the above mentioned activities, the CAQISC program employs a human resource utilization model—the National Resource Model (NRM) to account for staff activities in relation to each of the activity classifications. The NRM data allows direct resource costs such as wages to be determined/allocated and it forms the basis of drivers for the allocation of indirect costs.

3.0 Potential Increase or Decrease in the Cost of Living on Guam

The Legislative intent of the CAQISC program was to provide the agency a method of recovering the cost of its operations. By enactment of this legislation, CQA became less dependent on the General Fund and more self-reliant in generating revenues to cover its operational expenses. It is a financially viable program and allows the agency to provide the public with the level of service that they deserve and expect without further burdening the government's local tax base.

The proposed changes to the CAQISC program will allow the agency the flexibility to adjust its rates and charges in order to cover its operating costs while generating cash flow to undertake capital improvement programs or projects to improve the effectiveness and efficiencies of CQA. In addition, stakeholders understand that the agency must be able to recover the cost of their operations and acknowledge that the current fee structure is not adequate to cover the costs of performing the cargo clearance services. Moreover, stakeholders understand that any rate adjustments to the CAQISC program can be a lengthy process and would prefer that a rate setting methodology be enacted so that any changes to the program would be immediate and modest as opposed to infrequent but substantial price increases.

With the exception of the air carrier rates, the CAQISC program's rates for Cargo Clearance Services have remained unchanged since 1995. Users are willing to pay a higher rate if service levels can be achieved by the agency and more efficient and effective processes are created to manage the various components of the cargo clearance process.

3.1 Impact on Cost of Living

This section summarizes the impacts of CQA's proposed amendments to the CAQISC program. The following assumptions were made:

Cargo Clearance Fee: < 4,000 lbs = \$5.00/Each lb thereafter = \$.0012 per lb
Container Size: Forty-foot Equivalent (FEU)

Based on the following analysis the proposed rate change for Cargo Clearance Services does not appear to have a significant impact on the cost of living for normal everyday items used by Guam's consumers. The pricing points appear to be inelastic and the costs of goods over the next several years should not be impacted by CQA's ability to adjust its rates and charges to reflect the operational requirements of the agency.

Table 3.1 – Increases in Retail Costs per Unit

Item	Canned Beverages	Canned Spam	Lettuce Heads (2.2 lbs)	Rice (20 lb bag)	Lumber (2x4x8) 10.24 lbs
Unit (oz)	12	12	35.2	320	163.84
Est. Quantity	51,744	49,032	24,000	2,280	3,550
Avg Wght (lb)	38,808	36,774	52,800	45,600	36,352
Est Rev p/FEU	\$46.77	\$44.33	\$63.56	\$54.92	\$43.82
Unit Cost	\$.0009	\$.0009	\$.0026	\$.0240	\$.0123
No Impact/ Impact	No Impact	No Impact	No Impact	No Impact	No Impact

4.0 Increase or Decrease in the Cost of doing Business as an Enterprise or Industry on Guam

This section summarizes the impacts on the cost of doing business for CQA’s proposed amendments to the CAQISC program.

Based on the following analysis the proposed rate change for Cargo Clearance Services does not appear to have a significant impact on the cost of doing business on Guam. As stated in PB’s Port Master Plan report, transportation costs from the U.S. or Asia represent a major cost of doing business in Guam.

Table 4.1 – Relative Prices and Transport Costs in Guam

Per Container	Low	Mid	High
Estimated Retail Value (typical)	\$ 30,000	\$ 100,000	\$ 300,000
Transportation Cost (typical)			
Low	\$ 4,500	\$ 4,500	\$ 4,500
High	\$ 7,500	\$ 7,500	\$ 7,500
Transport Cost % of Retail Value			
Low	15%	5%	2%
High	25%	8%	3%
Impact of CAQISC on Retail Value			
Estimated CAQISC Fees	\$ 44	\$ 55	\$ 63
CAQISC Fees % of Retail Price	0.15%	0.06%	0.02%
Impact on Retail Prices	Minimal	Minimal	Minimal

Source: BST Associates, PB Ports, U.S. Department of Commerce, U.S. Census Bureau

According to the report, a typical retail value of a 40-foot container in Guam is estimated to range from approximately \$30,000 (low) to \$300,000 (high). The cost to transport a container from the U.S. West Coast to Guam’s businesses is estimated to cost between \$4,500 (low) and \$7,500 (high). For cargo of medium value, the total

transport cost represents approximately 5% (low) to 8% (high) of the retail value in Guam.

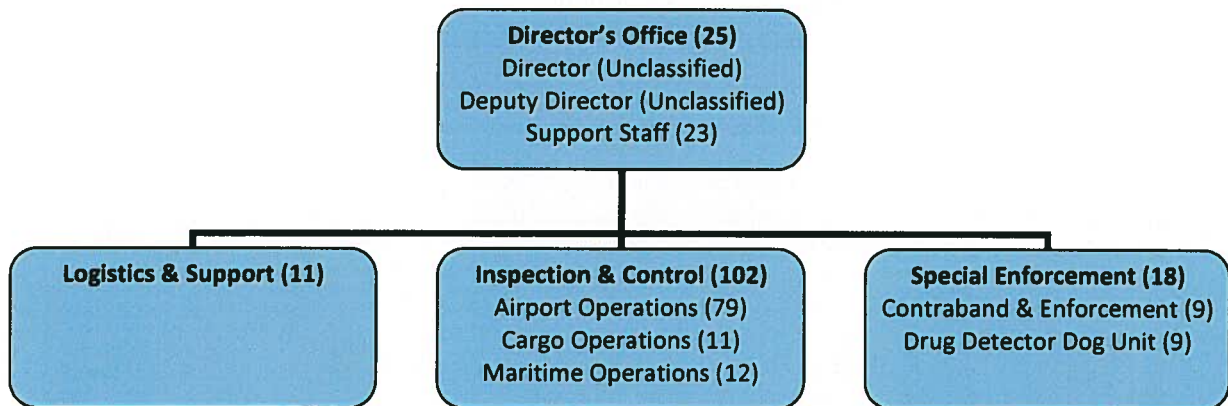
As illustrated, the proposed fees for the CAQISC program currently represent 0.02% to 0.15% of the product's retail value. The implementation of the proposed fees for cargo clearance services does not appear to have a significant impact on the cost of doing business on Guam now and into the future.

5.0 Direct or Indirect Impact upon Employment on Guam

This section summarizes the economic impacts of the proposed fees for the CAQISC program with respect to direct and indirect impacts on employment on Guam.

CQA currently has 156 personnel assigned to its agency. The Director and Deputy Director of CQA are unclassified employees and serve at the pleasure of the Governor of Guam. The remaining 154 personnel are tasked throughout the agency in support of various functions. The following is the organizational chart for CQA:

CQA ORGANIZATIONAL CHART (FY 2010)



Since 2006, Cargo Clearance Services were handled by a team of 24-25 officers. These officers are responsible for the inspection and clearance of over 1.2 million metric tons of cargo and over 2,500 vessels annually.

Cargo shipments into Guam are anticipated to increase as key components of the proposed military build-up gets underway and as the island experiences its own organic

growth. The following illustrates the projected forecast for the various types of cargo as set forth in the 2007 Port Master Plan prepared by PB:

Table 5.1 – Cargo Forecast

Cargo Type	Base Case 2007	Peak 2015		Post Build-up 2027	
Container (TEU equivalents)	103,000	190,000	84%	163,000	58%
Break Bulk (Rev Tons)	155,000	320,000	106%	121,000	-22%
Bulk Cargo Tonnage (Cement)	100,000	500,000	400%	110,000	10%
Air Cargo (Metric Tons)	15,379	20,331	32%	17,655	15%

Source: PB 2007 Jose D. Leon Guerrero Port Master Plan

Given the foregoing and after reviewing the Workload Analysis prepared by KPMG Consulting, it appears that more manpower will be required to meet the projected cargo demands resulting from Guam’s organic growth and DOD’s military build-up initiatives.

The proposed changes to the CAQISC program will allow CQA to project manpower requirements or allocate resources effectively to achieve the agency’s operational objectives. This will allow the agency greater operational flexibility and carry out its mission efficiently and effectively without growing beyond the forecasted cargo demands.

Aside from increasing CQA personnel, the proposed changes should not have an economic impact, direct, indirect or induced on employment levels on Guam other than what was identified in the 2007 Jose D. Leon Guerrero Commercial Port of Guam Master Plan.

6.0 Adverse or Beneficial Economic Impact which is Attributable to the Proposed Rule or Regulation.

The implementation of the proposed changes to the CAQISC program will result in favorable economic outcomes. The proposed fee structure for Cargo Clearance Services will allow the agency to effectively cover all operational expenses, both direct and indirect costs. Moreover, the process will become more simplified and streamlined, creating efficiencies and allowing the agency to achieve cost-cutting goals while increasing productivity. In addition, it will allow the agency to forecast its operational

requirements and adjust the fees to ensure that the fee structure is commensurate with revenue requirements to recover its operational costs.

7.0 Proposed Changes to the CAQISC program

Cargo imported via the Air Cargo and Maritime areas place a significant risk potential for the importation of illegal contraband via these ports of entry. The risk potential at the air cargo section is largely attributed to the immense quantity of individual consignments moving through that system that helps make the concealment of contraband relatively difficult to detect among the many legitimate shipments that move through that port of entry each day. At the same time, however, the risk potential at the maritime section is more attributable to the large volume (size) of each individual shipment where the mere magnitude of the shipment makes the concealment of contraband difficult to detect within the shipment itself. For these reasons, both areas carry a high level of potential contraband risk that necessitate a meticulous attention to detail by the officers assigned at these ports of entry.

Proposed changes to the CAQISC program offers several benefits in general. Among these benefits have already been outlined within this report, and include: it establishes a mechanism for the Agency to better recover the costs of providing, maintaining, and operation customs cargo services and facilities on Guam, second, it establishes a fee mechanism which offers greater flexibility to meet fluctuations in the relative demand for customs services and to recover those costs accordingly; and third, it provides the agency with a more objective means at determining revenue projections under the program, and to better plan for any capital, facilities, personnel resource, or other budgetary matter which has a bearing on the Agency's operations and ability to provide, maintain, and operate customs cargo facilities.

The concept of obtaining a centralized customs inspection facility for inbound and outbound cargo at the Antonio B. Won Pat International Airport and the Commercial Port of Guam has been deemed necessary as part of CQA's overall homeland security program and the need to incorporate better control, accountability, and security over cargo pending clearance by customs. At the Antonio B. Won Pat International Airport, centrally located floor space has been allocated for CQA, together with second floor office space, specifically for the provision of customs inspection services. Because of its centrally located position within the facility, as well as the modernization of CQA's operating and service capabilities, this facility offers the import/export community with a one-stop service center for all its border clearance needs. As such, CQA anticipates a

much more timely, reliable, and effective delivery of its services to the general import public.

Some of the immediate benefits this facility offers include:

1. Quality Customer Service Center – For the first time in Customs cargo clearance history, officers will work in a safe, comfortable, and fully equipped working environment suited towards providing quick and effective clearance services to customers. This area is capable of servicing up to five customers at any given time, and is retrofitted with ample work space for reviewing and processing import documents, online network capabilities to access up-to-date intelligence information and regulatory requirements necessary for determinations on commodities and importer histories, dedicated phone lines to quickly clarify import requirements with the regulatory agencies we collaborate with, and comprehensive processing equipment and forms readily on-hand under a secured access controlled system to complete the review and clearance process.
2. Spacious and Lighted Inspection Area – This facility is designed with a spacious inspection floor area properly lighted to give officers enough room and visibility to carry out effective and efficient inspections of imported commodities. Also included within this area are fish inspections bins for the many fish imports, inspection tables for closer reviews of smaller packages, and an emergency wash-down system in the event officers are contaminated by potentially hazardous fluids, powders, etc.
3. Fully Equipped Fruit, Vegetable, and Flower Inspection Room – This room was designed specifically towards the inspection and clearance of fresh flower, fruit, and vegetable imports. This area is fully contained to keep potential pest from escaping into our community, and when discovered, capable of being sealed and disinfected to mitigate that risk completely. Some of the inherent inspection tools retrofitted in this room include: ample inspection counter space made of a durable white counter top with lighted magnifying glasses to quickly detect hitchhiking insects and other organisms that may be contained within the produce, with ample storage and drawer space to maintain specimen supplies, equipment, and forms, with a stainless steel washbasins to perform quick disinfections of produce when allowable, with commercial grinders to destroy commodities that may not be suited for reconditioning, and with a computer workstation for online access to USDA manuals and regulatory information essential for determining the enter-ability status of the various fruit, vegetable, and flower imports.

4. State-of-the-art X-Ray Room – In today's smuggling environment, many smugglers have become more sophisticated in their smuggling techniques. Often times, smugglers will hide their contraband within equipment, toys, engines, and even solid objects whereby the narcotics cannot be detected with the naked eye. The x-ray room takes this possibility away from smugglers by giving officers the enhanced capability of quickly seeing beyond the naked eye, and into what may be hiding beneath the surface. With this tool, officers have the advantage at their fingertips at all times for all their inspecting needs.

5. Accountability and Control Staging Area – This facility is retrofitted with a cargo staging checkpoint whereby all cargo entering the customs facility undergo an accountability and receiving process. This checkpoint is secured on both sides by access control systems, and provides customs with better accountability and control over all cargo entering into, and being processed/maintained within, the customs air cargo facility. This provides full control and accountability over all cargo of customs interest and eliminates the possibility for these high-risk cargo to be pilfered or stolen from the border.

6. Spacious and Secure Hold Cages – The Customs Inspection Facility has been retrofitted with two fully secured and spacious hold cages complete with access control locks and heavy duty storage shelves to meet the security and space needs of the customs operations of today and future programs. The first cage is designed to provide the security and control needs of the air cargo operations over cargo held for further processing and/or inspection from an enforcement and regulatory standpoint. This cage also provides ample space for the future programs of customs such as bonding of shipments in transit, and for other advanced clearance type activities envisioned by the department for the near future. The second hold cage was designed specifically to increase customs tax collection capabilities at this port of entry. Due to a lack of space, the department currently assesses use taxes on taxable commodities and releases the items to the importers. As a result, the Air Cargo Section collects only approximately 30% of all tax assessments. The Hold Cages were designed to more effectively and efficiently increase this tax collection effort to as much as 100% whereby a pay before release program identical to the Commercial Port can be implemented.

7. On-site K-9 Office and Target Rooms – The new Custom Air cargo Facility has likewise made accommodations for the establishment of an on-site K-9 inspection program. This area has an office and two target rooms dedicated to the K-9 enforcement section whereby a k-9 team can be maintained onsite at all times, and can provide regular recurring inspections of all inbound cargo for any hidden narcotics. This

will greatly increase our capabilities to detect hidden contraband smuggled via this port of entry, and to prevent it from entering into our island community.

8. Efficient Advanced Clearance Office – As part of our long-term improvements for our inspection and clearance program, the Agency intends to transition from a case-by-case clearance approach to an advanced clearance type service program. This office is retrofitted with four fully integrated online workstations dedicated strictly towards receiving advanced import information from the airlines and importers, conducting reviews of these documentation prior to the cargoes actual arrival, comparing the declaration against existing intelligence information and regulatory requirements, and identifying all those cargoes for inspection as may be deemed necessary by customs. All other cargo not flagged by customs for inspection may be released by the airlines directly to the importer without any further inspections required. Through an advanced clearance program, much of the cargo clearance process currently born by our service constituents can be alleviated by making this process much more convenient and customer service orientated, while at the same time, remain law enforcement effective.

9. Overall Security and Accountability of Facility – Overall, this facility offers a modernized security a control system whereby access into and within the facility is controlled by magnetic swipe access locks accessible only by customs personnel. The facility is also monitored by the department on a 24/7 basis via a Closed Circuit Television System (CCTV) with audio and visual recording features, with alarm systems built into the video monitoring system, and with control locks at all high-control areas of the facility. Altogether, these features offer heightened security and control over all activities within the air cargo area, serves as a deterrent to potential acts of malfeasance, and provides a means to effectively detect and document potential acts of pilferage for prosecution.

In line with CQA's better resource management and cost cutting objectives, the Agency intends to manage its cargo processing operations at the commercial port and air cargo facilities under a shared resource and operating environment. Doing so will enable the agency to maximize the efficiency of its service and clearance operations through the cross utilization of manpower and equipment resources assigned to the maritime and sea cargo areas, and at the same time, to deploy appropriate resources where ever service demands require them most both under routine and emergent circumstances. Consequently, CQA will be capable of curtailing costs across both areas and providing a more efficient delivery of services to the general import community.

CQA has the long term objective to likewise construct a customs inspection facility for inbound cargo at the commercial port. The construction of this facility, however, is part of the Guam Port Authority's Overall Master Improvement Plan that may not be realized for at least five more years. As previously outlined, the Customs Air Cargo Inspection Area will also be used to handle targeted inspections of containers arriving via the commercial port for the more intense inspections with its ample inspection area, safe and secure work environment sheltered from the elements, and state of the art inspection equipment such as x-ray machines, cargo moving equipment, pest containment areas, contraband safeguarding areas, and electronic monitoring and security features.

With the automation of our maritime clearance processes, the Agency will also be able to implement an advanced clearance program whereby both air and sea shipments partaking under this program can have their import documentation screened prior to the shipments arrival. For those shipments where no further customs interest is determined, they can be cleared in advance for immediate release to the importer. The Advanced Clearance Office at the GIACF is capable for handling these processes for both air and sea imports under the joint use facilities approach.

Altogether, the modernization of fees will provides a catalyst for realizing several benefits to customs, the carriers, and importers alike. For Customs, it will enable the department to better recapture the costs of providing, maintaining, and operating cargo services throughout our ports of entry; to realize additional program improvements such as automating the clearance process; for taking firm steps towards instituting an advanced clearance program; for maintaining appropriate staff levels to properly address increases associated with Guam's growth and the military buildup; and for providing better inspection facilities and tools within CQA's operations to more safely, effectively, and efficiently provide services at the borders.

For Carriers, the modernization of fees offers better customs clearance facilities and programs with shorter delays in the clearance of cargo, reduced congestion within carrier cargo staging and warehouse areas, and possibilities for quicker turnarounds on cargo landings and releases under advanced clearance capabilities. And for the importers, it offers a one stop clearance point for all their cargo import needs, quicker inspections on held cargo, shorter to no lines under an advanced clearance environment, and no delays in receiving cargo should it be cleared without further need for inspection.

7.1.1 Background & Key Assumptions

To determine the most suitable fee structure that would be both acceptable to the agency's customers and would allow it to be truly financially self sustainable, CQA retained the services of KPMG Consulting/Guam Systems Consulting to execute a Cost of Service Study and Fee Assessment and Development project. The study determined the fully burdened cost of Guam Customs and Quarantine Agency's operations; thus, providing the backbone for the development of a proposed fee structure. The model is designed to provide a five year rolling forecast of costs and revenues. Based upon the actual costs and revenues, the fees are adjusted eighteen months in the future.

The two latter fees constitute the only source of funding for non-airport activities, which include:

- Document processing
- Passenger inspections
- Inbound and outbound cargo and container inspections
- Vessel inspections and clearances
- Border surveillance monitoring and inspection operations
- Special assessments and collections
- Controlled delivery and narcotic operations
- Property and evidence handling, and
- Postal cargo processing

7.1.2 Fee Determination

The Director of Customs (Director) is responsible for assuring, to the extent reasonably possible, that the service charges assessed for cargo clearance services reflect as much as possible the actual costs associated with providing, maintaining, and operating the service charge facilities which relate to cargo clearance operations.

Accordingly, in connection with the Director's annual budget review of the service, the Director will make necessary adjustments to the service charges so that those charges reasonably reflect the anticipated costs during the upcoming year of providing, maintaining, and operating the service charge facilities as those facilities relate to cargo operations.

In order to calculate the proposed service charge reasonably attributable to each cargo consignment, the Director will estimate the projected annualized costs of providing, maintaining, and operating the service charge facilities as they relate to cargo operations, and will apportion such amount in proportion to the prior year's annualized cargo volume subject to the services. Such annualized cargo volume is determined by reference to the

annual activity reports on cargo arrivals maintained by the GIAT and Port Authority of Guam.

Upon review and pursuant to the proposed methodology, the Director has determined that such total annualized costs of providing, maintaining, and operating the service charge facilities as they relate to cargo operations is approximately \$2,828,545.31. Thus, the monthly charge attributable to all importers is \$235,712.11 for which each importer will be responsible for remitting to the Agency its service charge as determined under the program rules and regulations. The proposed monthly charge will be converted to a cost per pound for the purposes of the apportionment methodology by dividing the monthly charge by the average monthly arriving cargo volume during the preceding year.

7.1.3 Proposed Fee Structure

In accordance with the proposed fee determination methodology outlined under subsection 7.1.2 above, the proposed fee structure for cargo imported into Guam is:

For air cargo arriving at the GIAT or other location designated by the Director:

- a. Five (5) U.S. dollars for the first 100 pounds (shipping weight) or less of non-exempt cargo, whether consolidated or not, that is entered per carrier bill of lading; and
- b. .0012 U.S. dollars for every pound (shipping weight) of non-exempt cargo thereafter.
- c. The total service charge per carrier bill of lading will be rounded to the nearest U.S. cent.

For Containerized Shipments of sea cargo arriving at the Commercial Port of Guam or other location designated by the Director:

- a. Five (5) U.S. dollars for the first 4000 pounds (shipping weight) or less of non-exempt cargo, whether consolidated or not, entered per carrier bill of lading; and
- b. .0012 U.S. dollars for every pound (shipping weight) of non-exempt cargo respectively thereafter.
- c. The total service charge per carrier bill of lading will be rounded to the nearest U.S. cent.

For Non-containerized Shipments of sea cargo arriving at the Commercial Port of Guam or other location designated by the Director:

- a. Five (5) U.S. dollars for the first 4000 pounds (shipping weight) or less of non-exempt cargo, whether consolidated or not, that is entered per carrier bill of lading; and
- b. .0012 U.S. dollars for every pound (shipping weight) of non-exempt cargo thereafter not to exceed a total charge of \$500 U.S. Dollars per carrier bill of lading.
- c. The total service charge per carrier bill of lading will be rounded to the nearest U.S. cent.

7.1.4 Revenue Forecast

For the purposes of establishing a baseline of cargo volume projected for the upcoming year, the Department utilized the average weight of cargo imported over the past several years based upon the yearly tonnage reports published by the Guam International Airport Authority and the Port Authority of Guam. Based upon these cargo reports, the average weight of cargo projected for next year is approximately 2,404,399,268 pounds of cargo. In applying this averaged cargo volume against the proposed rate established under subsection 7.1.3 above, the revenue forecast of recovery during the course of the upcoming year is approximately \$2,885,279.12.

7.2 Proposed Rate Setting Methodology

The Director will review service charges at least annually and make such periodic adjustments as may be necessary in accordance with established program rules and regulations. Each year the Agency will prepare and submit an annual budget to the Legislature showing the projected costs associated with providing, maintaining and operating the service charge facilities which relate to sea passenger and cargo operations. If, for any reason, the Legislature fails to approve the Agency's budget for providing, maintaining, and operating the service charge facilities before the end of the current fiscal year, the service charge in effect shall continue in full force and effect until a budget is adopted and approved by the Legislature, unless a periodic adjustment has been made as authorized by established program rule and regulation.

The Director may periodically adjust the service charges for sea passenger and cargo services so that such charges reasonably reflect the anticipated actual costs of providing, maintaining, and operating the service charge facilities as they relate to sea passenger and cargo operations. In the event that there is a significant increase or decrease in the anticipated costs of providing, maintaining, and operating the service charge facilities for sea passenger and cargo clearance after a budget has been submitted to the Legislature and before conducting the annual review, the Director may adjust the monthly facility service charge for sea passenger and cargo clearance services so that the amount of the charge levied will reasonably reflect anticipated actual costs of providing, maintaining and operating the service charge facilities. The Director may make adjustments to these service charges by amending the service charge schedule in accordance with the Administrative Adjudication Law, and by posting public notice of the adjusted service charges in a conspicuous place within each customs sea passenger and cargo operations area at least thirty (30) days prior to the effective date of the adjustment. The Director may review and adjust the service charges for sea passenger and/or cargo services more frequently than on an annual basis.