

Supporting Statement Service Annual Survey

A. Justification

B. Necessity of the Information Collection

Today, over 50 percent of all economic activity is accounted for by services that are narrowly defined to exclude retail and wholesale trade. The U.S. Census Bureau currently measures the total output of most of these service industries annually in its Service Annual Survey (SAS). This survey covers all or some of the following nine sectors: Transportation and Warehousing; Information; Finance and Insurance; Real Estate and Rental and Leasing; Professional, Scientific, and Technical Services; Administration and Support and Waste Management and Remediation Services; Health Care and Social Assistance; Arts, Entertainment, and Recreation; and Other Services.

Data from the SAS are essential to a better understanding and higher quality estimates of economic growth, real output, prices, and productivity for our nation's economy. A broad spectrum of government and private stakeholders use these data in analyzing business and economic sectors; developing statistics on services; forecasting economic growth; and compiling data on productivity, prices and gross domestic product (GDP). In addition, trade and professional organizations use these data to analyze industry trends, benchmark their own statistical programs and develop forecasts. Private businesses use these data to measure market share, analyze business potential and plan investments. Comprehensive, comparative annual data on the services sector are not available from any other source.

In addition to the general expense detail items that the SAS collects annually, the SAS will expand to collect additional detailed expense items in the 2007 survey year to replace the Business Expenses Survey (BES) for the industries that are currently covered by the SAS. In the 2008 survey year, the SAS will collect the same expense detail items as were collected in the 2006 survey year.

As is done every year before the Economic Census, the SAS will collect sales tax data in the 2006 survey year.

In order to reduce the number of the SAS forms, the SAS will combine generic forms at the sector level and will no longer have different forms for company level reporting units and Employer Identification Number (EIN) reporting units or taxable and tax-exempt firms. These changes will decrease the number of SAS forms from 272 to 77 unique forms.

The availability of these data will greatly improve the quality of the intermediate-inputs and value-added estimates in BEA's annual input-output and GDP by industry accounts.

The Census Bureau will conduct this survey under the authority of an Act of Congress, Title 13, United States Code, Sections 182, 224 and 225.

2. Needs and Uses

The data produced in the SAS are critical to the accurate measurement of total economic activity.

- The Bureau of Economic Analysis (BEA), the primary Federal user, uses the information to develop the national income and product accounts, compile benchmark and annual input-output tables, and compute GDP by industry.
- Agencies of the U.S. Department of Transportation (DOT) use the data for policy development and program management and evaluation.
- The Bureau of Labor Statistics (BLS) uses these data as inputs to its Producer Price Indexes and in developing productivity measurements.
- The Centers for Medicare and Medicaid Services (CMS) use the data for program planning and development of the National Health Expenditure Accounts.
- The Federal Communications Commission (FCC) uses these data to assess the impact of regulatory policies.
- International agencies use the data to compare total domestic output to changing international activity.
- Private industry also uses these data as a tool for marketing analysis.

The following is a summary of the data items that we request and the need for this information. See Attachment 1 for a matrix of form content and a representative selection of survey forms. Because the 2006 SAS forms are currently being designed, 2005 SAS forms have been attached. The differences between the 2005 and 2006 SAS forms are that the 2006 forms will ask for sales tax and only one year of data. In addition, due to the consolidation of the SAS forms, there are a few organizational changes and the form names and subtitles will be slightly different. Note that all forms may include technical language. This terminology is already used on the Economic Census and other program questionnaires, or has been pretested during consultations with businesses in the industry (see 8).

Consultations Outside the Agency below).

3. Total Revenue and Revenue by Source - Needed for BEA's input-output tables. Data also are used by BLS for disaggregating weighted price indexes. Better weighting has led to more accurate and reliable indexes for these industries. Due to increasing complexities of business operation, disaggregation of these items also is useful in developing productivity measures for these industries.
- b. Total Expenses and Expenses by Type - Total and detailed expenses are collected from all businesses. These items provide a more complete and accurate measure of economic activity for the non-profit component of these industries. In the national income and product accounts and inter-industry accounts produced by BEA, taxable and tax-exempt establishments are treated differently. Tax-exempt establishments are required to complete the interest expense survey question. The annual industry accounts produced by BEA will use annual expense data to improve measurement of value added.
- c. Percentage of Revenue by Class of Customer - Used by the BEA in estimating Personal Consumption Expenditures.

Information quality is an integral part of the pre-dissemination review of information released by the Census Bureau (fully described in the Census Bureau's Information Quality Guidelines). Information quality is also integral to information collections conducted by the Census Bureau, and is incorporated into the clearance process required by the Paperwork Reduction Act.

3. Use of Information Technology

The following are the E-Government services that we will provide for the SAS:

A print on-demand system referred to as Docuprint will be used to prepare all questionnaires. The benefit of this system is its ability to print a specific document or set of related documents (when requested) and overlay variable data, bar code, and address label in predetermined locations throughout the documents, all in one pass through the printer. This process reduces the time and cost of preparing mailout packages, while improving the look and quality of the products being produced. This allows each form to be individually tailored to a particular industry or a particular business and include industry-specific instructions to clarify reporting criteria.

The Census Bureau is cooperating with individual companies who prefer to report electronically using facsimile technology. A laser printer facsimile machine connected to an "800" telephone line gives respondents the capability to FAX data to our collection facility in Jeffersonville, Indiana. Responding via FAX

expedites our receipt of questionnaires although businesses also may respond by mail. Approximately 19 percent of respondents reply through FAX.

An automated system for check-in of returned forms and a move toward return of delinquent cases by FAX during telephone follow-up allow for more timely identification of completed questionnaires.

Questionnaires are made available to view and download from the Internet.

The SAS program has also provided answers to frequently asked questions on the Internet. This site is referenced in the cover letter sent out with the questionnaire.

4. Efforts to Identify Duplication

Consultations were held with representatives of the Federal Government and industry organizations regarding the availability and need of statistical information for the service industries and to ensure that there is no duplication.

5. Minimizing Burden

The stratified random sample design used for the SAS is a design that uses the least number of sampling units required to produce national level estimates with the desired level of reliability, thus minimizing respondent burden. The SAS sample is generally re-selected every five years, at which time most small- and medium- sized firms are replaced in the sample by new respondents.

The Census Bureau works with individual companies to set up a customized reporting arrangement tailored to the company's needs. However, because the SAS requires that respondents provide only limited information in a consolidated report, a mail survey offers the best method for collecting the data while keeping the response burden to a minimum.

An automated paperless processing system is used for mailed-back report forms for timely identification of returned cases, thus minimizing unnecessary follow-up contacts with respondents. We provide respondents with a toll-free number to call if they have questions or need assistance in completing their report.

Firms canvassed are not required to maintain additional records for the survey, nor do we expect participants to incur extra expenses to develop data not readily available. To emphasize this point, a statement is included in the cover letter and reporting instructions to each respondent that estimates are acceptable where book figures are unavailable.

Data are collected from all of the largest firms and from a sample of small- and medium-sized businesses using a stratified random sampling procedure with the

probability of selection inversely proportionate to firm size. The minimum sampling rate for a given stratum is approximately 1 in 500.

We will make use of administrative data for nonrespondents, and for non-employer firms (those without paid employees) in lieu of mailing questionnaires to them.

Current- and previous-year data are requested only for the first year of the new sample (to provide a link point with the existing data series). In subsequent years, only current year data are requested.

6. Consequences of Less Frequent Collection

Data are collected on an annual basis. If the frequency were reduced, policy makers and others would be increasingly misinformed and misdirected about changes in the economy related to rates and sources of growth in output, prices, productivity and trade. Specifically, BEA would lack accurate, timely measurements of these changing industries for use in its national income and product accounts; the DOT would have insufficient information for policy development and program management; BLS Producer Price Indices and productivity measures would be compromised; and CMS would not have data for the development of the National Health Expenditure Accounts. In addition, the ability of other government and private data users to identify industry trends would be impaired.

In support of the SAS, BEA has written,

"The services industries are the most dynamic portions of the U.S. economy and thus require timely, comprehensive and consistent data to accurately measure our economy. Many of the services industries flows measured by BEA for national accounts statistics (such as Gross Domestic Product) have been estimated in the past using a broad range of private and public source data that differ significantly in coverage, concept, level of detail, classification and timing. The Service Annual Survey will provide the timely, comprehensive and consistent data needed to improve BEA's measures of national account statistics."

7. Special Circumstances

The data collection will be conducted in a manner consistent with OMB guidelines. There are no special circumstances.

8. Consultations Outside the Agency

Ruth Bramblett of the Bureau of Economic Analysis has been our primary source of consultations concerning the implementation of the recommendations by all Federal agencies.

The Census Bureau has periodic contacts with other Federal agencies regarding the overall survey content and coverage. They include:

- Stephen Heffler, CMS
- Jim Lande, FCC
- Irwin Gerduk, BLS (retired)

The Census Bureau worked closely with trade associations on the various industries during questionnaire development. Correspondence about the survey forms was done through written and oral communications. The associations commented on the survey content and provided information on the terminology used in the industries they represent.

Between July and August 2005, approximately 50 exploratory interviews were conducted to evaluate the proposed 2005 questionnaire changes. This research was conducted under the generic clearance for questionnaire pretesting research (OMB number 0607-0725).

Interviews were conducted with a variety of individuals including chief financial officers, accountants, tax managers, and vice-presidents in the businesses affected by the proposed questionnaire changes. The questionnaires were tested in five geographical areas: New York, NY; Houston, TX; Newark, NJ; Tampa, FL; and Washington DC. The primary issues addressed during the course of the testing were a) availability of revenue and expense data items in company records, b) clarity of terminology and reporting instructions, and c) estimation of burden hours.

Further, we published a pre-submission notice in the Federal Register on March 10, 2006 (vol. 71, pg. 12341), inviting public comment on our plans to submit this request. Comments were received during the 60-day comment period from BEA in support of the SAS because the data collected are crucial to key components of BEA's economic statistics.

9. Paying Respondents

We do not pay respondents or provide them gifts for participation in the SAS.

10. Assurance of Confidentiality

Data collected in this survey are confidential under the authority of an Act of Congress, Title 13, United States Code, Section 9, which states that only persons sworn to uphold the confidentiality of Census Bureau information may see the report forms and may use them only for statistical purposes. Respondents are advised of this, and informed that this survey is mandatory on the questionnaires and in the letters that accompany the initial and follow-up mailings. (see Attachment 2)

11. Justification for Sensitive Questions

The requested data concern only routine business information and are not of a sensitive nature.

12. Estimate of Hour Burden

We will canvass 57,652 reporting units (representing a universe of approximately 3 million establishments) with a total response burden of 208,941 hours in the 2006 and 2008 survey years, as shown in Attachment 3. In the 2007 survey year, the total response burden will be approximately 237,767 hours, as shown in Attachment 3. Burden hours for each form were estimated based on information obtained from respondents during annual company visits.

The respondents' cost in time to complete the 2006 Service Annual Survey will be \$5,154,574 based on the median hourly salary of \$24.67 for accountants and auditors. (Occupational Employment Statistics-Bureau of Labor Statistics "2004 National Occupational Employment and Wages Estimates")

13. Estimate of Cost Burden

We do not expect respondents to incur any costs other than that of their time to respond. The information requested is of the type and scope normally carried in company records and no special hardware or accounting software or system is necessary to provide answers to this information collection. Therefore, respondents are not expected to incur any capital and start-up costs or system maintenance costs in responding. Further, purchasing of outside accounting or information

collection services, if performed by the respondent, is part of usual and customary business practices and not specifically required for this information collection.

14. Cost to Federal Government

The annual cost to the government for conducting the SAS will be \$4 million, all borne by the Census Bureau. This estimate includes planning and development; data collection and processing; and operational costs such as overhead, equipment, printing, and support staff.

15. Reason for Change in Burden

The increase in burden from the 2005 survey year to the 2006 survey year is attributable to increased sample size in the new sample. The increase in burden from the 2006 survey year to the 2007 survey year is attributable to expanding expense detail items. The decrease in burden from the 2007 survey year to the 2008 survey year is attributable to collecting less detailed expense items.

16. Project Schedule

The following is an outline of the planned schedule for the 2006 survey year:

<u>Operation</u>	<u>Date</u>
Initial Mailout	January 2007
First mail follow-up	March 2007
Second mail follow-up	April 2007
Telephone follow-up	May 2007
Edit, tabulation and review	March - October 2007
Publication	December 2007

17. Expiration Date

We will continue to display the expiration date on the information collection instruments.

18. Exceptions to the Certification

There are no exceptions to the certification.

19. NAICS Codes Affected

The SAS collects information from the following major groups:

48-49 Transportation and Warehousing
51 Information
52 Finance and Insurance
53 Real Estate and Rental and Leasing
54 Professional, Scientific and Technical Services
56 Administrative and Support and Waste Management and Remediation Services
62 Health Care and Social Assistance
71 Arts, Entertainment and Recreation
81 Other Services (except Public Administration)

Attachment 4a-4i outlines the industries that we currently cover.