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**The Policy of Full Funding for Federal Activities. February 22, 1978. 5 pp. + enclosure (4 pp.).**

**Testimony before the House Committee on Budget: Budget Process Task Force; by Donald L. Scantlebury, Director, Financial and General Management Studies Div.**

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Congressional Relevance: House Committee on Budget: Budget Process Task Force.**

Full funding permits an agency to contract for the full cost of items, knowing that completion of work will not be held up by budget cuts or funding delays. Expansion of the full funding concept could permit multiyear contracting with substantial annual savings. Some arguments against full funding are: it results in agencies having substantial unobligated fund balances (that portion of an agency's appropriation that is available for obligation at a certain time) throughout and at the end of a given fiscal year; it could reduce shortrun control over outlays by Congress; and it could increase the fluctuation of budget estimates. However, the full funding concept is economically advantageous for many operations, and its concepts have general applicability to most Federal agencies. (HTW)

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STATEMENT OF  
DONALD L. SCANTLEBURY, DIRECTOR  
FINANCIAL AND GENERAL MANAGEMENT STUDIES DIVISION  
BEFORE THE  
BUDGET PROCESS TASK FORCE  
COMMITTEE ON THE BUDGET  
HOUSE OF REPRESENTATIVES  
CONCERNING THE POLICY OF  
FULL FUNDING FOR FEDERAL ACTIVITIES

Mr. Chairman, we are pleased to be here today to discuss our report to you on the advisability and feasibility of applying the full funding concept to additional programs and activities in the Federal budget.

Full funding is not a new concept. It has been used for many years as a means of financing certain projects. The significance of the full funding concept is that it permits an agency to contract for the full cost of an item or items, such as ships, with the knowledge that full obligational authority is available to complete the item or items and that completion

of the work will not be held up or stretched out by budget cuts or funding delays.

Prior to the institution of full funding, funds were provided in annual increments. Shipbuilding has often been used as an example in explaining the full funding concept because of the length of procurement lead time which ranges from 3 to 7 years depending primarily on the type of ship. Exhibit I to my statement demonstrates graphically how budget authority was granted before full funding was used. Each year authority was granted for only a portion of the ship or ships being contracted for. Over the length of the contract budget reductions and constraints could delay timely completion of the ships and result in additional cost of the total ship. Under the full funding concept, Exhibit II to my statement, sufficient budget authority was provided in a fiscal year to initiate and complete construction of the ship or ships authorized in that year. The Department of Defense has consistently followed this approach. As used by Department of Defense, however, the concept does not provide funding in a given year for an entire program; rather it provides for the full cost of funding the number of items for which procurement will be initiated that year.

We believe that full funding has the advantage of permitting agencies to complete long-term projects at optimum efficiency and reduces delays caused by funding restraints. In the water

resources area, funding restrictions have caused substantial slippage in construction schedules and resulted in increased costs by having to pay contractor overhead for a longer period and through increased material and labor costs.

For example, a dam and reservoir project was delayed 3 years because of funding restrictions. In another example half of a 9 year delay in completion was attributed to budgetary restrictions.

Leasing of automatic data processing equipment provides another example where full funding would result in savings. In many cases, agencies are precluded by law from entering into multiyear leases because payments for rented equipment are made from 1-year appropriations which are available for incurring obligations only during a specified fiscal year. Consequently, the Government cannot take advantage of substantial savings available through multiyear leasing of ADP equipment. Full funding would alleviate this problem.

The expansion of the full funding concept could permit multiyear contracting which, in one example, could result in annual savings of \$3 million on 26 contracts having a total annual cost of \$14 million.

An argument often raised against full funding is that it results in agencies having substantial unobligated fund balances throughout and at the end of a given fiscal year. The unobligated balance is that portion of an agency's

appropriation that is available for obligation at a point in time. In 1-year accounts the unobligated balance expires at the end of the fiscal year. In multiple-year accounts the unobligated balance may be carried forward and remains available for obligation for the period specified. In no-year accounts the unobligated balance is carried forward until the purposes for which the appropriation was made have been fulfilled or, if no disbursements have been made against the appropriation for two full consecutive fiscal years, it is withdrawn. I want to emphasize that the result of these increases in unobligated balances do not impact on the amount of cash available, by borrowing or otherwise, until disbursements are to be made.

Another possible negative aspect of full funding is that it could reduce the ability of the Congress to exercise shortrun control over outlays. A greater part of each year's outlays will result from budget authority granted in earlier years and will not be automatically subject to current congressional oversight or action. Finally full funding could increase the fluctuation of budget estimates if obligation and outlay rates are not accurately estimated.

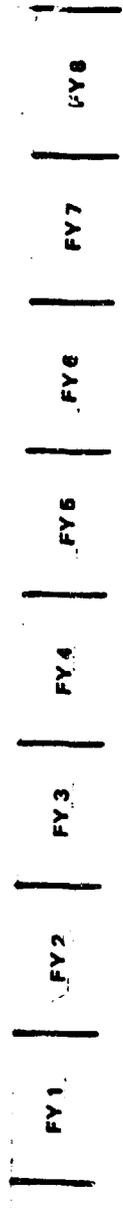
We continue to believe, however, that the full funding concept is economically advantageous for many operations and that its concepts have general applicability to most agencies in the Federal establishment.

This completes my statement Mr. Chairman, and I will be happy to answer any questions which you may have.



FULL FUNDING CONCEPT

EXHIBIT II



BUDGET  
AUTHORITY  
FY 1



BUDGET  
AUTHORITY  
FY 2



BUDGET  
AUTHORITY  
FY 3

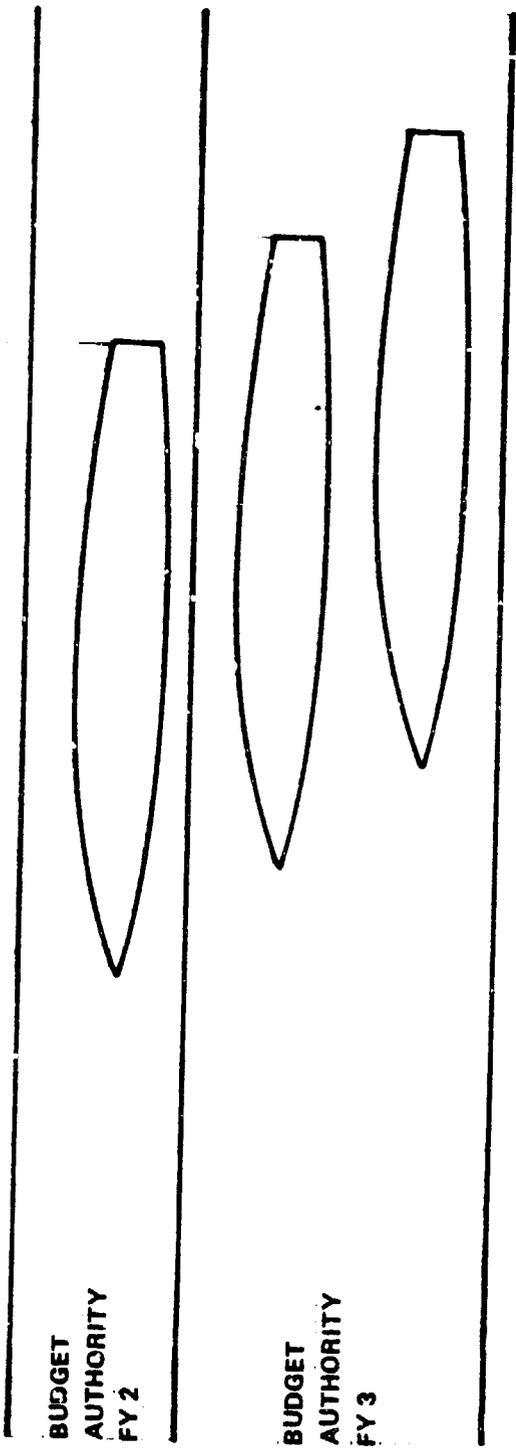


EXHIBIT II

FULL FUNDING CONCEPT



BUDGET  
AUTHORITY  
FY 1

BUDGET  
AUTHORITY  
FY 2

BUDGET  
AUTHORITY  
FY 3

INCREMENTAL FUNDING CONCEPT

