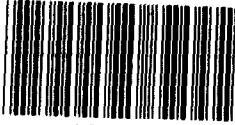


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UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D. C. 20548



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STATEMENT OF
HARRY S. HAVENS
ASSISTANT COMPTROLLER GENERAL
BEFORE THE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
UNITED STATES SENATE
ON THE
HONEST BUDGETING
ACT OF 1983
S. 1679

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to testify before your Committee on the budget treatment of the Federal Financing Bank (FFB) and specifically on S. 1679.

This bill would require that the receipts and disbursements of the FFB be included in the Federal budget and charged to the program agency.

We support this objective. It will increase the visibility of the Government's credit activities and will make the budget reflect more accurately the activities of the Government.

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If the provisions of S. 1679 had been in effect during fiscal year 1982, net budget outlay totals of some 15 agencies would have gone up about \$14 billion. In our view, the loss of visibility was an undesirable side-effect of the way FFB was created. Nevertheless, the original objective of having an FFB--to achieve better coordination of the Government's borrowing activities--is still valid and should be preserved. We believe that S. 1679 is an appropriate solution to the problem.

Our views on this bill are based on work we have done concerning Federal credit programs over a period of several years. In the interest of brevity I will not elaborate on this work, but I have attached a list of relevant reports, hearing statements and bill comments. In addition we are currently conducting a review of FFB's impact on credit and debt management issues.

We would be happy to discuss our work further with you or your staff, if that would be helpful.

Provisions of S. 1679

The major provisions of S. 1679 would

--Require that all transactions of the FFB be included in the unified budget totals of the responsible Federal agencies, with amounts disbursed by the FFB being treated as a means of financing the responsible Federal agency;

--Require the Director of the Office of Management and Budget (OMB) to issue regulations to carry out the above provision; and

--Require that an obligation of a type which was, during the period from October 1, 1981 to September 30, 1984, issued, sold, or guaranteed and financed through the FFB be offered for sale in

the future first to the FFB before going to the private market, with regulatory authority vested in the Secretary of the Treasury.

We favor including FFB transactions in the unified budget totals and charging those agencies which provide guarantees to repay the FFB funds. However, we believe that certain changes are needed to accomplish the desired result. As presently written in S. 1679, loan guarantee amounts financed by the FFB shall not exceed amounts of budget authority provided to a Federal agency for such purposes. However, the statutory definition of budget authority, as stated in section 3(a)(2) of the Congressional Budget Act of 1974, specifically excludes loan guarantee amounts from budget authority. Attached to my statement is a suggested revision which we believe would resolve this statutory conflict.

We also suggest that the legislative history of the bill make it clear that "means of financing" refers to agency borrowing from the FFB which affects the agency balance sheet by increasing cash and increasing liabilities. It is not intended to be treated as an offset to outlays and budget authority totals. Treating FFB transactions as borrowing will require an increase in agency budget totals because borrowing must be authorized through the budget process and is scored as budget authority.

And finally, the last major provision would provide that if agencies used the FFB between October 1, 1981, and September 30, 1984, then in the future they must also utilize the FFB. We agree with the objective of this provision, to assure that

agencies continue to use the FFB, where appropriate. We note, however, that the provision could be interpreted as being applicable only to agencies which used the FFB during a particular period. We suggest that the legislative history make it clear that the provision is applicable, for example, to a new agency (created after 1984) if the agency issued, sold, or guaranteed obligations of a type currently financed by the FFB.

We also note that the regulatory powers vested in the executive branch are quite strong. We suggest that you monitor the implementation of the bill to assure consistency with congressional intent.

With the changes we have suggested we would recommend enactment of this bill.

Mr. Chairman, this concludes my prepared statement. I would be pleased to try to answer any questions.

GAO PRODUCTS ON THE FEDERAL FINANCING BANK

U.S. General Accounting Office, "Government Agency Transactions with the Federal Financing Bank Should Be Included in the Budget" (PAD-77-70, August 3, 1977).

Testimony before the Subcommittee on Oversight of the House Committee on Ways and Means on the budget treatment of the Federal Financing Bank, H.R. 7416, September 20, 1977.

U.S. General Accounting Office, "Legislative Changes Needed to Improve Budget Treatment of Certificates of Beneficial Ownership" (PAD-80-32, April 9, 1980).

U.S. General Accounting Office, "Federal Budget Totals Are Understated Because of Current Budget Practices (PAD-81-22, December 31, 1980).

U.S. General Accounting Office comments on S. 2162, a bill to include Federal Financing Bank amounts in budget totals and change the treatment of certain transactions, August 20, 1982.

Testimony before the Subcommittee on Federal Credit Programs, Senate Committee on Banking, Housing, and Urban Affairs on the Federal Financing Bank, April 5, 1983.

Testimony before the House Committee on Ways and Means on the budget treatment of the Federal Financing Bank, H.R. 2868, May 12, 1983.

"(c) All transactions of the Bank shall be reflected in the unified budget of the United States Government. Amounts which are disbursed by the Bank for the purchase of loans guaranteed, loan assets sold, and debt obligations issued, by a Federal agency shall be treated as borrowing and a means of financing that agency. Such amounts shall be disbursed by the Bank to the Federal agency and redisbursed by the Federal agency as loans to qualified public borrowers. Amounts which are disbursed for loans by a Federal agency and which are financed by the Bank shall be recorded as outlays of that agency and the amounts of such loans shall not exceed the amounts of budget authority provided to the agency for the purpose of making these kinds of loans. The Director of the Office of Management and Budget shall issue regulations to carry out the provisions of this subsection."