



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

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B-204078

MARCH 19, 1982

To the President of the Senate and the
Speaker of the House of Representatives

The Panama Canal Act of 1979 (22 U.S.C. 3601), requires the Comptroller General of the United States to certify the Secretary of Defense's estimate of the Panama Canal Commission's annual revenues to be deposited in the Panama Canal Commission Fund. This report responds to this requirement for fiscal year 1983 estimated revenues and deposits. 1/

Specifically, section 1302(c)(2) of the act states that:

"No funds may be appropriated to or for the use of the Commission for any fiscal year in excess of (A) the amount of revenues deposited in the Panama Canal Commission Fund during such fiscal year, as such amount is estimated by the Secretary of Defense and certified by the Comptroller General of the United States at the time the budget request for the Commission for such fiscal year is submitted to the Congress * * *."



The act provides no criteria for us to use in certifying the estimated revenues. Therefore, we proceeded by testing Commission computations of fiscal year 1983 estimates and reviewing the method employed to compile the estimates and forecasts. We previously employed this same procedure to certify Commission estimated revenues for fiscal years 1980, 1981, and 1982. We also compared actual and estimated revenues for prior years.

COMMISSION ESTIMATE FOR FISCAL YEAR 1983

The Assistant Secretary of the Army (Civil Works), 2/ who is also Chairman of the Commission Supervisory Board, estimates that

1/The Commission requires that tolls be paid or guaranteed prior to transit. Thus, for the Commission the terms revenues and deposits are practically synonymous. These terms are used interchangeably in this report.

2/Duties assigned by the act to the Secretary of Defense were subsequently delegated to the Secretary of the Army and by him to the Assistant Secretary of the Army.

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the amount to be deposited in the Panama Canal Commission Fund will be \$467.9 million. This includes \$38.9 million which represents a 13.1 percent toll increase anticipated to become effective on October 1, 1982. (See enc. I.)

HOW THE ESTIMATE WAS DEVELOPED

Tolls charged vessels which transit the Canal will generate the majority--\$335.9 million--of the Commission's projected revenues. Non-toll revenues of \$131.9 million are expected to be generated by providing supporting services, such as navigation, sales of water and power, and rents on employee housing. The methods of estimating toll and non-toll revenues differ, and are treated separately in this discussion.

Tolls revenue

The toll-revenue estimate is the product of the number of Panama Canal net tons (PCNT) 1/ expected to transit the Canal and the approved toll rate. The number of PCNT is based on a forecast of expected oceangoing transits. Toll rates are to be set at a level designed to make the Commission self-supporting.

Determination of PCNT: A December 1980 study, prepared for the Commission by Economic Research Associates (ERA), provides forecasts of transits by oceangoing commercial ships by commodity, vessel size (length, beam and draft), and trade route for the 10-year period from 1981 to 1990. From these data, the PCNT expected for a given fiscal year can be estimated. The study's forecast for fiscal year 1983 is 13,986 oceangoing transits, carrying 195.9 million PCNT. We examined this study and found it to be reasonable.

The Commission then adjusted the ERA study data for events not anticipated by the study. For example, the ERA study, assumed no alternatives to the Canal for vessels carrying Alaska North Slope Crude Oil (ANS). However, a trans-Panama pipeline developed specifically--and at this time, exclusively--for ANS oil will become operational during fiscal year 1983. The Commission anticipates that by February 1983, all ANS traffic would be using the trans-Panama pipeline. ANS oil accounted for an average of 3.1 vessel transits per day during fiscal year 1981 and generated revenues of about \$40.4 million.

Following adjustments, the Commission arrived at an estimate of 13,520 oceangoing transits carrying 184.5 million PCNT. By way of comparison, the Commission estimated 14,100 oceangoing transits carrying 195 million PCNT during fiscal year 1982.

1/A Panama Canal net ton is equal to 100 cubic feet of revenue-generating capacity beneath the deck of a vessel.

Determination of Tolls rates: Section 1602 of the Panama Canal Act of 1979 provides:

"(b) Tolls shall be prescribed at rates calculated to produce revenues to cover as nearly as practicable all costs of maintaining and operating the Panama Canal * * * including unrecovered costs * * *."

The Commission estimates the costs of maintaining and operating the Canal during fiscal year 1983 to be \$457.9 million. Unrecovered costs from prior years were estimated at \$596,000. (This is the estimated operating loss incurred during fiscal year 1981.) Thus, the Commission needs to generate revenues of \$458.5 million to recover fiscal year 1983 operating costs and the operating loss incurred during fiscal year 1981.

Without a toll-rate increase, the Commission could expect to generate net revenues of \$419.5 million. ^{1/} Thus, the Commission must either seek a tolls increase or suffer a deficit during fiscal year 1983 of some \$38.9 million. This is the equivalent of a 13.1 percent increase in tolls, and an increase of that magnitude is included in the Commission calculation of fiscal year 1983 estimated revenues.

The Commission estimate acknowledges that the timing of the completion of the trans-Panama pipeline, and the resulting loss of traffic, is a major assumption in estimating revenues and the need for a 13.1 percent toll-rate increase. Should the loss occur earlier than expected, a higher toll-rate increase, perhaps approximating 16 to 17 percent, would be needed to generate the estimated revenues.

Non-toll revenues and deposit

Revenues and deposits expected to be derived from supporting activities, such as navigation services, or water and power production and delivery, are based on the most recent Commission estimates of revenues from these sources for fiscal year 1982 adjusted for foreseeable variations. The most current estimate for this type revenue during fiscal year 1982 is \$117.5 million. The estimate for fiscal year 1983 is \$131.9 million or an increase of \$14.4 million.

^{1/}Net revenues equal tolls revenues (\$297 million) plus other revenues (\$131.9 million), less advances for capital collected as a part of tolls (\$9.4 million). This latter element is termed the capital factor.

A majority of the increase in non-toll revenue is from a projected increase in rates charged for Commission services rather than from the sale of more services. For example, anticipated rate increases for power will produce some \$12.1 million of the expected \$14.4 million increase in non-toll revenues.

COMPARISON OF PRIOR YEAR ESTIMATES AND ACTUAL REVENUE

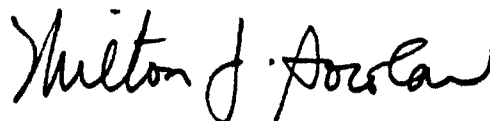
We began certifying Commission revenue estimates with the estimate for fiscal year 1980. The comparison between actual and estimated revenues for fiscal years 1980 and 1981, the only years for which comparison is currently possible, is shown below (in millions of dollars).

<u>FISCAL YEAR</u>	<u>ESTIMATE</u>	<u>ACTUAL</u>	<u>DIFFERENCE</u>	
			<u>AMOUNT</u>	<u>PERCENT</u>
1980	\$463.9	\$455.5	\$8.4	1.8
1981	\$410.1	\$409.7	\$0.4	0.1

We believe as the table indicates, the Commission has been successful in estimating its revenues. The Commission begins work on its revenue estimates 2 years or more before the start of the fiscal year for which the estimate is made. For example, work on the fiscal year 1983 estimate began in 1980 and the final estimate was presented to the Comptroller General for certification on January 25, 1982.

CERTIFICATION OF REVENUES AND DEPOSITS

In our opinion, subject to the uncertainties in financial forecasting, particularly with respect to Canal traffic and the anticipated toll rate increase, the Commission's fiscal year 1983 estimate of \$467.9 million in revenues and deposits appears reasonable. Achieving the estimate, however, depends extensively upon the completion date of the trans-Panama pipeline, and the increase in the toll-rate ultimately implemented by the Commission.

for 
 Comptroller General
 of the United States

Enclosure



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON, D. C. 20310

Honorable Charles A. Bowsler
Comptroller General
of The United States
Washington, D. C. 20548

January 25, 1982

Dear Mr. Bowsler:

Section 1302(c) (2) of the Panama Canal Act of 1979 provides that:

"No funds may be appropriated to or for the use of the Commission for any fiscal year in excess of (A) the amount of revenue deposited in the Panama Canal Commission Fund during such fiscal year, as such amount is estimated by the Secretary of Defense and certified by the Comptroller General of the United States at the time the budget request for the Commission for such fiscal year is submitted to the Congress, plus (B) the amount of revenues deposited in such Fund prior to such fiscal year and remaining unexpended at the beginning of such fiscal year...."

In conformance with subparagraph (2) (A) of section 1302(c) of said Act, I estimate that the operating revenues to be deposited by the Panama Canal Commission into the Panama Canal Commission Fund during fiscal year 1983 will amount to \$467,830,000 of which \$335,944,000 will come from tolls and \$131,886,000 from other services. In addition to those operating revenue receipts, the Panama Canal Commission will deposit into the Panama Canal Commission Fund in fiscal year 1983 \$100,000 from the sale and disposition of plant assets.

The toll income projection in 1983 anticipates a toll rate increase of 13.1% effective October 1, 1982 which will generate \$38,944,000. This increase is required to offset escalating operating costs and the loss of Alaska North Slope oil traffic which is scheduled to divert to the Trans-Panama oil pipeline in February 1983. The increase is necessary to comply with the requirements of law that tolls be established to cover all costs of maintaining and operating the Panama Canal. The Commission, after thorough review of its operating costs, considers this to be the minimum toll increase essential to the continued safe and efficient operation of the Panama Canal.

Although a major assumption in projecting the 13.1% toll increase is the loss of Alaskan North Slope Oil shipments beginning in February 1983, there is a possibility that the Trans-Panama pipeline would become operational before February 1, 1983. In this event, the Commission would be required to place into effect a modestly higher tolls increase, perhaps approximating 16%-17%, to recover the additional loss of tolls income.

ENCLOSURE I

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Honorable Charles A. Bowsher

Total deposits by the Panama Canal Commission into the Panama Canal Commission Fund during fiscal year 1983 are, therefore, estimated at \$467,930,000 (see attachment). This estimate is based on the projections contained in the President's Budget for fiscal year 1983.

Your certification of the amount estimated for deposit into the Panama Canal Commission Fund in fiscal year 1983 will be appreciated.

Sincerely yours,



William R. Gianelli
Assistant Secretary of the Army
(Civil Works)

Enclosure

cc: Annelise Anderson,
OMB

Panama Canal Commission
 Estimate of Revenues and Deposits
 President's Budget FY 1983

	<u>In thousands</u>
Tolls (at existing rates)	\$297,000
Provision for toll rate increase	<u>38,944</u>
Total tolls	<u>335,944</u>
Revenue other than Tolls:	
Navigation services	62,271
Power services	44,513
Water system	10,494
Employee Housing	5,601
All other	<u>9,007</u>
Total Revenue other than Tolls	<u>131,886</u>
Total operating revenues	<u>467,830</u>
Proceeds from disposal of fixed assets	<u>100</u>
Total estimated receipts deposited in U. S. Treasury - FY 1983	<u><u>467,930</u></u>

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