



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

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B-204078

JUNE 19, 1984



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The Honorable Thomas P. O'Neill, Jr.  
Speaker of the House of Representatives

Dear Mr. Speaker:

Subject: / Certification of Panama Canal Commission  
Estimated Revenues for Fiscal Year 1985  
(GAO/NSIAD-84-95)

The Panama Canal Act of 1979 (22 U.S.C. 3601-3871 (Supp. IV 1980)) requires the Comptroller General of the United States to certify the estimated revenues of the Panama Canal Commission for each fiscal year. This report responds to that requirement for fiscal year 1985.

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 1985 estimates and reviewing the method employed to compile the estimates. We used the same procedures to certify the Commission's estimated revenues for fiscal years 1980 through 1984. We also compared actual and estimated revenues for fiscal years 1980 through 1983.

COMMISSION ESTIMATE FOR FISCAL YEAR 1985

The Assistant Secretary of the Army (Civil Works),<sup>1</sup>  
who is also Chairman of the Commission Supervisory Board,

<sup>1</sup>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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estimates that the amount of revenues to be deposited in the Panama Canal Commission Fund during fiscal year 1985 will be \$443.9 million. (See enc. I. ) This estimate represents the Commission's judgment, based on present circumstances, of favorable traffic conditions and the Commission's most likely course of action.

#### HOW THE ESTIMATE WAS DEVELOPED

Tolls charged vessels which transit the Canal will generate the majority--\$315.0 million--of the Commission's estimated revenues. Non-toll revenues of \$128.9 million are expected to be generated by providing navigation support and other services such as water, power, and housing. The methods of estimating toll and non-toll revenues differ.

#### Toll revenue

The toll revenue estimate is the product of the number of Panama Canal net tons (PCNT)<sup>2</sup> expected to transit the Canal and the average PCNT toll rate. The number of PCNT's is based on a forecast of expected oceangoing transits. Toll rates are set at a level designed to make the Commission self-supporting.

Determination of PCNT: The Commission maintains an extensive data base containing information on all vessels which have entered Canal waters. The information compiled includes vessel size (length, beam and draft), cargo carrying capacity, commodities (types and tonnage), origin and destination points, and tolls paid. In addition, Commission economists and other personnel survey activities and trends in the maritime industry to determine the possible effects on Panama Canal traffic. Using information contained in the data base in conjunction with results of their surveys, Commission economists forecast PCNT's and transits. Because of uncertainties regarding the pace of economic recovery during fiscal years 1984 and 1985, Commission economists began using a range of traffic forecasts in preparing the fiscal year 1985 estimate and revising the 1984 estimate. Their forecast for fiscal year 1985 ranges from 11,210 oceangoing transits carrying 168.0 million PCNT's to 11,935

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<sup>2</sup>A Panama Canal net ton is equal to 100 cubic feet of revenue-generating capacity beneath the deck of a vessel.

oceangoing transits carrying 179.0 million PCNT's. The following table shows the most recent fiscal year 1984 and 1985 PCNT forecasts and related revenue estimates.

<u>FISCAL YEAR</u>	<u>ACTIVITY</u>	<u>FORECAST RANGE (millions)</u>		
		<u>LOW</u>	<u>MIDDLE</u>	<u>HIGH</u>
1984	PCNT's	157.0	162.0	168.0
	Toll Revenue	\$275.0	\$285.0	\$295.0
1985	PCNT's	168.0	173.0	179.0
	Toll Revenue	\$295.0	\$305.0	\$315.0

The Commission is using the high-range forecast for Congressional reporting. This forecast assumes that the shipping industry will make a gradual and sustained recovery during fiscal years 1984 and 1985. Their fiscal year 1984 operating budget, however, is based on the middle-range forecast. Actual revenues for the first 6 months of fiscal year 1984 were above the Commission's middle-range forecast.

Determination of toll rates: Section 1602(b) of the Panama Canal Act of 1979 provides:

"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, together with the facilities and appurtenances related thereto, including unrecovered costs incurred on or after the effective date of this Act, interest, depreciation, payments to the Republic of Panama pursuant to paragraph 5 of Article III and paragraph 4 (a) and (b) of Article XIII of the Panama Canal Treaty of 1977, and capital for plant replacement, expansion, and improvements. Tolls shall not be prescribed at rates calculated to produce revenues sufficient to cover payments to the Republic of Panama pursuant to paragraph 4 (c) of Article XIII of the Panama Canal Treaty of 1977."

A toll rate increase of 9.8 percent became effective on March 12, 1983. The Commission does not anticipate further increases in the toll rate during fiscal years 1984 and 1985.

Non-toll revenues

Revenues expected to be derived from other services, such as navigation, water and power production and delivery, and housing, are based on the estimated costs of providing such services during fiscal year 1985. The Commission's policy is to

set service rates on a cost recovery basis. The revenue estimate for fiscal year 1985 is \$125.9 million, a reduction of \$3.8 million or 2.9 percent from the non-toll revenue estimate for fiscal year 1984. The reduction is due principally to a projected decrease in fuel oil prices and related housing costs.

The fiscal year 1985 estimate also includes \$3.0 million of expected revenue from a transit reservation system, whereby shippers, for a fee, could make advance reservation for vessel transit. The system was tested during fiscal year 1982 and found successful in providing priority to those vessels that had need for expeditious transit. The system was put into permanent use in April 1983.

COMPARISON OF PRIOR YEAR ESTIMATES AND ACTUAL REVENUE

We began certifying Commission revenue estimates with the estimate for fiscal year 1980. The comparison between estimated and actual revenues for fiscal years 1980 through 1983, 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
1982	440.0	440.1 <sup>3</sup>	0.1	-
1983	467.9	398.5 <sup>4</sup>	( 69.4)	14.8

As shown above, there was a substantial shortfall in revenues during fiscal year 1983 compared to the estimated amount. A portion of the shortfall can be attributed to a delay in implementation and reduction in magnitude of a toll rate increase, but the majority is due to a drop in Canal traffic

<sup>3</sup>This figure includes \$5.9 million in revenues derived from the transit reservation system. This revenue was not included in the Commission's estimate; had this amount been included, actual revenues would have fallen short \$5.8 million or 1.3 percent.

<sup>4</sup>This figure includes \$1.2 million in revenues derived from the transit reservation system. This revenue was not included in the Commission's estimate; had this amount been included, actual revenues would have fallen short \$70.6 million or 15.1 percent.

because of worldwide economic conditions. The fiscal year 1983 estimate was based on an assumption that a toll rate increase of 13.1 percent would be imposed on October 1, 1982. The rate increase was required to offset escalating operating costs and the loss of Alaska North Slope oil shipments to the new trans-Panama oil pipeline. That increase was delayed until March 1983 and reduced to 9.8 percent. The delay and reduction account for about \$25.0 million of the revenue shortfall. The remaining shortfall--\$44.4 million--was due primarily to underestimating the severity of the worldwide economic recession at the time the fiscal year 1983 revenue estimate was prepared.

The Commission has successfully kept expenditures in line with revenues. The substantial revenue shortfall experienced in fiscal year 1983 resulted in a net loss from operations of \$4.1 million. This loss, which is required to be recovered from subsequent revenues, was more than fully made up during the first 6 months of fiscal year 1984 when the Commission operated at a net profit of \$5.4 million.

Work on the Commission's revenue estimate begins over 20 months before the start of the fiscal year for which the estimate is made. The estimate which is presented to the Comptroller General for certification is prepared about 9 months before the start of the fiscal year. The estimate is frequently revised as more information becomes available. Based on its revised estimate for the current year, the Commission proposed a rescission of \$17.75 million for operating expenses and \$7.625 million for capital outlay in fiscal year 1984.

Commission economists base their fiscal year 1985 revenue estimate on an assumption that the shipping industry will gradually recover from the effects of the economic recession during 1984 and 1985. The Commission's toll revenue estimate of \$315.0 million represents a 10.5 percent increase from the fiscal year 1984 middle-range revenue level (\$285.0 million). This estimate is at the upper limit of projections which can be made on the basis of existing data.


#### CERTIFICATION OF REVENUE

Based on our review, we believe the current underlying assumptions provide a reasonable basis for making an estimate of the revenue to be deposited in the Panama Canal Commission Fund during fiscal year 1985. However, these assumptions may not

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materialize and unanticipated events may occur; therefore, results achieved may vary from the forecast and the variation may be material.

Sincerely yours,

*for*   
Comptroller General  
of the United States

Enclosure



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY  
WASHINGTON, DC 20310

ENCLOSURE I

20 JAN 1984

Honorable Charles A. Bowsher  
Comptroller General  
of the United States  
Washington, D.C. 20548

Dear Mr. Bowsher:

The Panama Canal Act of 1979 requires the Comptroller General of the United States to certify the expected revenues to be deposited into the Panama Canal Commission Fund for the year in which appropriations are being requested. In anticipation of the Commission's budget being submitted to the Congress in January 1984, this is a request to certify the Commission's revenue estimates for FY 1985.

Specifically, 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 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 1985 will amount to \$440,846,000 of which \$315,000,000 will come from tolls and \$125,846,000 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 1985 \$3,000,000 from the transit reservation system and \$100,000 from the disposal of plant assets.

Total deposits by the Panama Canal Commission into the Panama Canal Commission Fund during fiscal year 1985 are, therefore, estimated at \$443,946,000 (see attachment). This estimate is based on the projections contained in the President's Budget for fiscal year 1985.

Your certification of the amount estimated for deposit into the Panama Canal Commission Fund in fiscal year 1985 will be appreciated.

Sincerely yours,

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

Enclosure

Panama Canal Commission  
Estimate of Revenues and Deposits  
President's Budget FY 1985

	<u>In thousands</u>
Tolls .....	<u>\$315,000</u>
Revenue other than Tolls:	
Navigation services .....	62,951
Power services .....	37,876
Water system .....	10,589
Employee Housing .....	4,274
All other .....	<u>10,156</u>
 Total Revenue other than Tolls .....	 <u>125,846</u>
 Total operating revenues .....	 <u>440,846</u>
 Revenue from transit reservation system .....	 3,000
 Proceeds from disposal of fixed assets .....	 <u>100</u>
 Total estimated receipts to be deposited in U.S. Treasury - FY 1985 .....	  <u>\$443,946</u>