

GAO

March 1994

**ADDRESSING THE
DEFICIT**

**Budgetary Implications
of Selected GAO Work**





United States
General Accounting Office
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Comptroller General
of the United States

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The President of the Senate
The Speaker of the House of Representatives

In previous reports,¹ GAO has stressed to the Congress and the public the urgent and ultimately unavoidable need for deficit reduction. The persistently high deficit levels experienced throughout the 1980s and 1990s and the growing debt burden which now exceeds \$4 trillion constrain the government's ability to meet pressing national needs and absorb savings that would otherwise be available to finance investment that is critical to long-term economic growth.

The Congress acted to improve the short-term budget outlook through enactment of the Omnibus Budget Reconciliation Act of 1993, which amended the Budget Enforcement Act (BEA) of 1990. Although this constituted significant progress, the Congressional Budget Office (CBO) projects that the deficit will resume its upward growth after 1998, due to such factors as the continued growth of federal health care spending, interest costs to finance the debt, and expiration of discretionary spending caps. Moreover, unmet needs and new spending claims upon the government will place additional strain upon the federal budget as well. As a result, the Congress will continue to face pressure to reduce the deficit over the next several years.

In the past, GAO has actively supported efforts of the Congress to address federal spending and revenue issues through our reports, testimonies, and annual reviews of selected agency budget submissions. Our work has contributed to legislative and executive actions which, in the last decade, have resulted in billions of dollars of measurable financial benefits, including budget reductions, costs avoided, appropriation deferrals, and revenue enhancements.

On the basis of recent discussions with Members of Congress, we believe that we can augment our service to the Congress by more systematically identifying in one report the budgetary implications of selected policy changes and program reforms discussed in our work, but not yet implemented or enacted. In this report, we present some options for spending reductions and revenue increases, which stem from key findings and issues developed in our audits and evaluations. Some of these options

¹Budget Issues (GAO/OCG-93-ITR, December 1992); Budget Policy: Prompt Action Necessary to Avert Long-Term Damage to the Economy (GAO/OCG-92-2, June 5, 1992); and The Budget Deficit: Outlook, Implications, and Choices (GAO/OCG-90-5, September 12, 1990).

reflect GAO recommendations; most do not, but rather represent one way to address, in a budgetary context, some of the significant problems identified in GAO's evaluations of federal policies and programs. Clearly, the Congress has many available options for dealing with the deficit. Inclusion of a specific option in this report does not mean that GAO endorses it as the only feasible approach, or that other spending reductions or revenue increases are not also appropriate for consideration by the Congress.

To guide our selection of options, we developed an analytical framework (See Appendix I) constructed around three broad themes:

- reassess objectives, that is, reconsider whether to terminate or revise services and programs provided;
- redefine beneficiaries, that is, reconsider a program's intended audience; and
- improve efficiency, that is, reconsider how a program or service is provided.

We used the framework to review our published work and then to provide a structure for listing individual options in this report. (See Appendices II, III, and IV) This framework can also facilitate the deficit reduction debate within the Congress by providing a set of criteria to prompt decision makers to systematically reassess the goals, beneficiaries, and approaches used to deliver federal policies and programs.

To determine budgetary effects, each spending option was discussed with CBO, and each revenue option was discussed with the Joint Committee on Taxation (JCT). Where possible, estimates of budgetary savings or revenue gains were developed by CBO and JCT. Where estimates are not provided, a brief explanation and discussion is included with the option. A further discussion of the estimates is included in Appendix I.

Under the BEA, as amended, the spending and revenue options included in this report could be used either to reduce the deficit or to provide funds for other programs. Under the "PAYGO" rules of BEA, savings from direct spending programs (entitlement and mandatory programs) or revenue options would reduce the deficit unless these savings were offset by either program expansions or revenue reductions. For discretionary spending programs, savings from changes would contribute to additional deficit reduction only if BEA caps on discretionary spending were lowered;

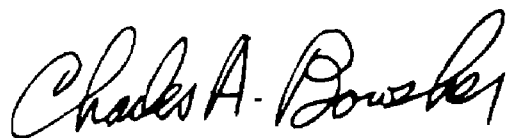
otherwise, the savings would be available for use in other discretionary programs.

Although we derived the options in this report from our existing body of work, there are similarities, not surprisingly, with other deficit reduction proposals. For example, some options contained in this report were included in the President's Fiscal Year 1995 budget submission and in 1993 legislation proposed by Senators Robert Kerrey and Hank Brown, and by Representatives Tim Penny and John Kasich; some are also referenced in other publications such as:

- the March 1994 CBO report, Reducing the Deficit: Spending and Revenue Options;
- the September 1993 report by the Vice President's National Performance Review, From Red Tape to Results: Creating a Government that Works Better and Costs Less; and
- the September 1993 report by the Concord Coalition, The Zero Deficit Plan: A Plan for Eliminating the Federal Budget Deficit by the Year 2000.

We hope that this report advances and supports congressional debate on the deficit by providing not only specific examples of possible savings or revenue gains, but also an overall structure to help focus discussions about specific programs and activities. We are sending copies of this report to appropriate congressional committees and to other interested parties.

This report was prepared under the direction of David G. Mathiasen, Assistant to the Comptroller General, who may be reached at (202) 512-5528, and Paul L. Posner, Director for Budget Issues, who may be reached at (202) 512-9573. Major contributors to this report are listed in Appendix V. Specific questions about individual options included in the Appendices may be directed to the GAO Contact listed at the end of each option.



Charles A. Bowsher
Comptroller General
of the United States

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Abbreviations

ADCAP	advanced capability
AFDC	Aid to Families with Dependent Children
AOC	Administrative Office of the U.S. Courts
AUM	animal unit month
BEA	Budget Enforcement Act
CBO	Congressional Budget Office
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
CRP	Conservation Reserve Program
CVP	Central Valley Project
DOD	Department of Defense
DOE	Department of Energy
EPA	Environmental Protection Agency
FDIC	Federal Deposit Insurance Corporation
GAO	General Accounting Office
GSA	General Services Administration
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
IDB	industrial development bond
IRS	Internal Revenue Service
JAST	Joint Advanced Strike Technology
JCT	Joint Committee on Taxation
NASA	National Aeronautics and Space Administration
OBRA	Omnibus Budget Reconciliation Act
OMB	Office of Management and Budget
PBGC	Pension Benefit Guaranty Corporation
QMB	qualified mortgage bond
RTC	Resolution Trust Corporation
SINC	Service industry noncompliance initiative
SSA	Social Security Administration
TJTC	Targeted Jobs Tax Credit
USDA	U.S. Department of Agriculture
USIA	United States Information Agency
VA	Department of Veterans Affairs

Introduction

A Framework for Deficit Reduction

The history of deficit reduction efforts suggests that basing decisions on explicit policy rationales, rather than considering separate program-by-program assessments, can improve chances for success. A consistent and systematic framework can be an effective means to formulate and package broad-based deficit reduction proposals. Additionally, this kind of approach can be used regardless of any other budgetary control mechanism (e.g., discretionary spending limits or sequestration procedures) or any given level of desired deficit reduction.

GAO's deficit reduction framework consists of three broad strategies: reassess objectives, redefine beneficiaries, and improve efficiency. These three fundamental strategies are based on an implicit set of decision rules that encourage decision makers to think systematically, within an ever-changing environment, about

- what services the government provides or should continue to provide,
- for whom these services are or should be provided, and
- how services are or should be provided.

By using a policy-oriented framework such as this, choices can be made more clearly and the results become more defensible.

Reassess Objectives

The first theme within our deficit reduction framework focuses on the objectives for federal programs or services. Our premise is that periodically reconsidering a program's original purpose, the conditions under which it continues to operate, and its cost-effectiveness, is appropriate. Our work suggests three decision rules which illustrate this strategy.

- Programs can be considered for termination if the program has succeeded in accomplishing its intended objective or if it is determined that the program has persistently failed to accomplish its objective.
- Programs can be considered for termination or revision when underlying conditions change such that original objectives may no longer be valid.
- Programs can be re-examined when cost estimates increase significantly above those associated with original objectives, when benefits fall substantially below original expectations, or both.

In Appendix II, we provide several options from our work which illustrate the theme, "reassess objectives."

Redefine Beneficiaries

The second theme within our deficit reduction framework focuses on the intended beneficiaries for federal programs or services. The Congress originally defines the intended audience for any program or service based on some perception of eligibility and/or need. To better reflect and target increasingly limited resources, these definitions can be periodically reviewed and revised. Our body of work suggests four decision rules which illustrate this strategy.

- Formulas for a variety of grant programs to state and local governments can be revised to better reflect the fiscal capacity of the recipient jurisdiction. This strategy could reduce overall funding demands while simultaneously redistributing available grant funds so that the most needy receive the same or increased levels of support.
- Eligibility rules can be revised, without altering the objectives of the program or service.
- Fees can be targeted on individuals, groups, or industries that directly benefit from federal programs. Also, existing charges can be increased so that a greater portion of the program's cost is shared by the direct beneficiaries.
- Tax preferences can be narrowed or eliminated by revising eligibility criteria or limiting the maximum amount of preference allowable.

In Appendix III, we provide several options from our work which illustrate the theme, "redefine beneficiaries."

Improve Efficiency

The third theme within our deficit reduction framework addresses how the program or service is delivered. This strategy suggests that focusing on the approach or delivery method can significantly reduce spending or increase collections. Our body of work suggests five decision rules which illustrate this strategy.

- Reorganizing programs or activities with similar objectives and audiences can eliminate duplication and improve operational efficiency.
- Using reengineering, benchmarking, streamlining and other process change techniques can reduce the cost of delivering services and programs.
- Using performance measurement and generally improving the accuracy of available program information can promote accountability and effectiveness and reduce errors.
- Improving collection methods and ensuring that all revenues and debts owed are collected can increase federal revenues.

- Establishing market-based prices can help the government recover the cost of providing services while encouraging more efficient use of the government's resources.

In Appendix IV, we provide several options from our work which illustrate the theme, "improve efficiency."

The Structure and Content of This Report

The options included in this report cover a wide range of federal policies and programs, reflecting the breadth of GAO's work responsibilities. To aid in using this report, each option is presented in a standard format. Spending options, arranged by budget subfunction, precede revenue options. Cognizant congressional committees and subcommittees and the responsible executive department or agency are indicated for each option. For spending options, the affected budget account and subfunction as well as the type of spending—discretionary or direct—are identified.

Each option is described in a brief narrative. Although these descriptions are intended to synopsise the key issues and problems developed in our audits and evaluations, readers are encouraged to refer to the related GAO products, listed at the end of each option, for a complete discussion.

Lastly, to determine savings and revenue estimates, each option was discussed with CBO and JCT. If specific estimates could not be provided, a brief discussion is included with the option. Where CBO estimates are provided, the following conventions were followed.²

- For revenue estimates, the increase in collections reflects that which would occur, over and above that due under current law, if the option were enacted.
- For direct spending programs, estimated savings show the difference between what the program would cost under the CBO baseline, which assumes continuation of current law, and what it would cost after the suggested modification.
- For discretionary spending programs, the estimates are based on a baseline which assumes a level of appropriations equal to the actual fiscal year 1994 appropriations increased for projected inflation. This baseline is commonly referred to as the "uncapped" baseline because it does not

²For a complete discussion of the uses and caveats of the CBO estimates, see CBO's March 1994 report, *Reducing the Deficit: Spending and Revenue Options*. Estimates included in the March 1994 report are indicated by the source, "Congressional Budget Office, *Reducing the Deficit*, March 1994." Other CBO estimates provided to GAO are sourced, "Congressional Budget Office."

incorporate the discretionary spending limits imposed by the BEA for fiscal years 1994 through 1998.

Subsequent savings and revenue estimates provided by CBO and JCT may not match exactly those contained in this report. Differences in the details of specific proposals, changes in assumptions which underlie the analyses, and updated baselines can all lead to significant differences in estimates.

Reassess Objectives

Option: F-22 Fighter

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense (DOD)
Accounts	Research, Development, Test, and Evaluation, Air Force (57-3600); Aircraft Procurement, Air Force (57-3010)
Spending type	Discretionary
Budget subfunction	DOD-Military

The Air Force's F-22 program was initiated in 1981 to meet the evolving threat projected for the mid-1990s. Since the F-22 program entered full-scale development in 1991, the severity of the projected military threat in terms of quantities and capabilities has declined. Instead of confronting thousands of modern Soviet fighters, U.S. air forces are now expected to confront potential adversary air forces that include few fighters that have the capability to challenge the F-15—the U.S. front line fighter. GAO's analysis shows that the F-15 exceeds the most advanced fighter threat system expected to exist for many years. Further, our analysis indicates that the current inventory of F-15s can be economically maintained in a structurally sound condition until 2015 or later.

In addition to a declining need for the F-22, the aircraft has not been designed to emphasize multiple missions or joint use among the services. Although the F-22 has some inherent air-to-ground capability (as do other aircraft), it is principally designed to perform one mission—air superiority against opposing fighters. Also, the F-22, as designed, will be a land-based fighter not capable of operating from aircraft carriers.

The Department of Defense has initiated a Joint Advanced Strike Technology (JAST) program to define the technologies for next-generation multimission aircraft. With 12 to 15 years—or more—available to develop a new fighter, the Congress could choose to cancel the F-22 fighter acquisition program and support development of a next generation fighter aircraft having capabilities for multiservice use in conducting multiple missions effectively.

Appendix II
Reassess Objectives

Five-Year Savings

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Budget authority	2,460	2,370	2,510	2,120	2,860
Outlays	1,140	2,030	1,900	1,660	1,710

Source: Congressional Budget Office, Reducing the Deficit, March 1994.

Related GAO Products

Tactical Aircraft: Planned F-15 Replacement Is Premature
(GAO/C-NSIAD-94-11, December 8, 1993).

1994 Defense Budget: Potential Reductions, Rescissions, and Restrictions to RDT&E Programs (GAO/NSIAD-93-293BR, September 30, 1993).

Naval Aviation: Consider All Alternatives Before Proceeding with the F/A-18 E/F (GAO/NSIAD-93-144, August 27, 1993).

GAO Contact Louis J. Rodrigues, (202) 512-4841

**Option:
MK-48 Advanced
Capability Torpedo
Propulsion System**

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Accounts	Weapons Procurement, Navy (17-1507); Research, Development, Test, and Evaluation, Navy (17-1319)
Spending type	Discretionary
Budget subfunction	DOD-Military

In 1986, the Navy established a requirement to upgrade the propulsion system on its MK-48 Advanced Capability (ADCAP) torpedo. The upgrade was intended to reduce noise levels when the torpedo was fired from the SSN-21 Seawolf submarine. In January 1992, the Navy stated that the Seawolf's requirements could be met by the current ADCAP, without the upgrade. The Navy now plans to use the upgraded torpedo on other submarines and estimates that upgrading new MK-48 torpedoes will cost about \$127 million (\$47 million for research, development, test, and evaluation; and \$80 million for incorporation into new production units). The Navy also estimates that an additional \$200 million will be needed in future years' weapons procurement funds to upgrade about 1,350 existing MK-48 torpedoes.

Using the upgraded torpedo on submarines with noise levels higher than the Seawolf could limit the benefits of the upgrade. Because the upgrade is not intended to meet and will not lead to meeting the Navy's current torpedo noise reduction requirements, nor significantly contribute to the technology necessary to meet those requirements, GAO has recommended that the upgrade program be terminated.

Five-Year Savings

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Budget authority	30	30	30	30	30
Outlays	20	30	30	30	30

Source: Congressional Budget Office.

Appendix II
Reassess Objectives

Related GAO Product

Navy Torpedo Program: MK-48 ADCAP Propulsion System Upgrade Not Needed (GAO/NSIAD-92-191, September 10, 1992).

GAO Contact Richard A. Davis, (202) 512-3504

Option: Army's Comanche Helicopter

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Account	Research, Development, Test and Evaluation, Army (21-2040)
Spending type	Discretionary
Budget subfunction	DOD-Military

When fielded in 2003, the Comanche helicopter is to replace Vietnam-era scout and attack helicopters that the Army considers incapable of meeting existing or future requirements. The Comanche's overall program cost has grown to more than \$35 billion, with an estimated unit cost of more than \$27 million. Anticipated cost increases in its T800 engine and other unresolved technical risks indicate that future cost growth is likely. Moreover, projected operation and support savings for the Comanche, compared with helicopters it is to replace, appear to have become less probable, and the Army has not reassessed these estimated savings since their original projection in 1988.

Although light attack missions are part of the Army's plan for the Comanche, its lethality is now expected to rival or surpass that of the Apache—the Army's premiere attack helicopter. In addition, as the Army reduces its total helicopter fleet, it plans to modify many of those that will remain to increase their combat capabilities. For example, the Army plans to arm the Kiowa and to make several planned improvements to the basic model Apaches, including adding Longbow modifications to 227 Apaches. These actions, collectively, tend to blur the distinction in roles among the Army's helicopter fleet.

Given real and probable development cost increases, an uncertain operating and support cost environment, and questions about the role of the Comanche compared to other Army helicopters, the Congress may wish to rethink the need to purchase the Comanche. Terminating the program will produce the following budget savings.

Appendix II
Reassess Objectives

Five-Year Savings

Dollars in millions

	FY95	FY96	FY97	FY98	FY99
Budget authority	470	370	300	460	670
Outlays	260	360	320	390	510

Source: Congressional Budget Office.

Related GAO Product

Comanche Helicopter: Program Needs Reassessment Due to Increased Unit Cost and Other Factors (GAO/NSIAD-92-204, May 27, 1992).

GAO Contact Louis J. Rodrigues, (202) 512-4841

Option:
C-17 Aircraft

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Accounts	Aircraft Procurement, Air Force (57-3010); Research, Development, Test, and Evaluation, Air Force (57-3600)
Spending type	Discretionary
Budget subfunction	DOD-Military

The C-17 has been a troubled program almost since its inception and has fallen far short of original cost, schedule, and performance objectives. As a result of the program's problems, DOD sponsored a cost and operational effectiveness analysis to explore alternatives to the C-17 for meeting planned airlift capacity requirements, including acquiring additional commercial wide-body derivative aircraft. Although the analysis shows that there are cost effective wide-body alternatives, DOD has not made a final decision on substituting commercial wide-body aircraft for the C-17.

Through fiscal year 1994, funds have been appropriated for 26 C-17 aircraft. Last year, the Air Force planned to request funds for another 66 C-17's between fiscal years 1995 and 1999. Canceling the program at 26 aircraft would result in a 2 million ton mile per day shortfall in planned airlift capacity by fiscal year 1999. However, to avoid falling below planned levels, the Air Force could purchase additional commercial wide-body derivatives. GAO's analysis shows that the Air Force would need to purchase 20 additional wide-body aircraft between fiscal years 1995 and 1999.

The Congress may wish to cancel the C-17 aircraft program. Airlift capacity would remain stable at the Air Force's projected levels if the C-17 program were canceled in 1995 and commercial derivatives substituted, although certain military capabilities such as air drop could be reduced. The Air Force estimates that program termination cost for this option could be approximately \$1 billion; however, final termination costs are as yet undefined. The Air Force may also have to settle some claims filed against the government by the contractor. Ongoing GAO work is assessing these and other issues related to the C-17 program.

The following savings estimate for cancelling the C-17 program at 26 aircraft includes purchasing 20 additional wide-body aircraft, but does not include program termination costs.

Five-Year Savings

Dollars in millions

	FY95	FY96	FY97	FY98	FY99
Budget authority	2,480	3,530	2,710	2,280	3,220
Outlays	130	720	1,810	2,460	2,550

Source: Congressional Budget Office.

Related GAO Products

Military Airlift: Status of the C-17 Development Program (GAO/T-NSIAD-93-6, March 10, 1993) and (GAO/NSIAD-93-8, March 18, 1993).

Defense Industry: Status of the C-17 Program and Related Issues Affecting the McDonnell Douglas Corporation (GAO/T-NSIAD-92-4, November 14, 1992).

Military Aircraft: C-17 Wing Flap Requires Additional Testing (GAO/NSIAD-92-160, July 8, 1992).

Embedded Computer Systems: Significant Software Problems on C-17 Must Be Addressed (GAO/IMTEC-92-48, May 7, 1992).

Military Airlift: Selected Events in the Development of the C-17 (GAO/NSIAD-92-181FS, May 4, 1992).

Military Airlift: Status of the C-17 Development Program (GAO/NSIAD-92-205BR, April 20, 1992).

Defense Industry: Issues Concerning Five Weapon Systems Provided or Developed by McDonnell Douglas Corporation (GAO/T-NSIAD-92-1, October 3, 1991).

Military Airlift: Cost and Complexity of the C-17 Aircraft Research and Development Program (GAO/NSIAD-91-5, March 19, 1991).

Status of the Air Force's C-17 Aircraft Program (GAO/T-NSIAD-90-48, June 19, 1990).

GAO Contact Louis J. Rodrigues, (202) 512-4841

**Option:
TV Marti**

Authorizing committees	Foreign Relations (Senate) Foreign Affairs (House)
Appropriations subcommittees	Commerce, Justice, State, and Judiciary (Senate and House)
Primary agency	U.S. Information Agency (USIA)
Account	Television Broadcasting to Cuba (67-0208)
Spending type	Discretionary
Budget subfunction	Foreign information and exchange activities

USIA provides television broadcasts to Cuba through TV Marti. The U.S. Advisory Commission on Public Diplomacy has reported that TV Marti is not cost-effective and has for several years recommended that it be terminated. GAO has criticized program controls, which had failed to ensure objective and balanced broadcasts. Available evidence suggests that very few people in Cuba watch TV Marti. The signal is jammed, problems with transmission facilities have, on occasion, limited potential viewers to the very small Cuban population with satellite receivers, and broadcast hours are in the middle of the night.

The Congress may wish to reconsider the need for TV Marti, given its persistent problems and its limited ability to achieve its original goals.

Five-Year Savings

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Budget authority	2	8	8	8	8
Outlays	1	6	7	8	8

Source: Congressional Budget Office.

Related GAO Products

TV Marti: Costs and Compliance With Broadcast Standards and International Agreements (GAO/NSIAD-92-199, May 6, 1992).

Broadcasts to Cuba: TV Marti Surveys are Flawed (GAO/NSIAD-90-252, August 9, 1990).

GAO Contact Joseph E. Kelley, (202) 512-4128

Option: Space Station

Authorizing committees	Commerce, Science, and Transportation (Senate) Science, Space, and Technology (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	National Aeronautics and Space Administration (NASA)
Account	Research and Development (80-0108)
Spending type	Discretionary
Budget subfunction	General science and basic research

Since 1985, the space station has been redesigned numerous times and serious questions have been raised in the scientific community about the extent to which it is needed for life sciences and microgravity research. In early 1993, after about \$11 billion and 8 years of development effort, the administration directed NASA to reassess the space station program. The goal was to achieve a design that would require no more than \$9 billion and take no more than five years to complete.

Although NASA was unable to meet those goals, the administration supported the redesign, which now is estimated to cost over \$19 billion and take about 10 years to complete. Then, in an attempt to reduce the station's cost and accelerate its schedule, the administration agreed with the Russian government on its increased participation in the program. However, as the technical and management complexities of integrating the Russians into the program begin to emerge, it is increasingly uncertain what impact significant Russian participation will have on the space station's cost and schedule.

Given the problems experienced to date and the question and uncertainty that still surround the space station, the Congress may wish to consider whether, and to what extent, it wants to accept NASA's latest redesign and attendant cost and schedule. After reviewing these issues, the Congress could consider whether to delay the project, reduce its scope and costs, or terminate it. Five-year savings for terminating the space station are shown below.

Appendix II
Reassess Objectives

Five-Year Savings

Dollars in millions

	FY95	FY96	FY97	FY98	FY99
Budget authority	2,150	2,200	2,250	2,350	2,400
Outlays	1,400	2,100	2,250	2,300	2,350

Source: Congressional Budget Office, Reducing the Deficit, March 1994.

Related GAO Products

Space Station: Program Instability and Cost Growth Continue Pending Redesign (GAO/NSIAD-93-187, May 18, 1993).

NASA: Large Programs May Consume Increasing Share of Limited Future Budgets (GAO/NSIAD-92-278, September 4, 1992).

Space Station: Status of Financial Reserves (GAO/NSIAD-92-279, July 20, 1992).

NASA Budget: Potential Shortfalls in Funding NASA's 5-Year Plan (GAO/T-NSIAD-92-18, March 17, 1992).

Questions Remain on the Costs, Uses, and Risks of the Redesigned Space Station (GAO/T-NSIAD-91-26, May 1, 1991).

GAO Contact Donna M. Heivilin, (202) 512-8412

**Option:
Milk Marketing
Orders**

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (House)
Primary agency	U.S. Department of Agriculture (USDA)
Account	Commodity Credit Corporation Fund (12-4336)
Spending type	Direct
Budget subfunction	Farm income stabilization

The major objectives of federal dairy policies have been to ensure an adequate supply of milk and to support dairy farmers' incomes. Two interrelated programs to accomplish these objectives are milk marketing orders and price supports. Milk is the only commodity with both order pricing and price support programs.

Marketing orders set minimum prices that must be paid for milk for fluid use, based on the manufacturing grade price plus differentials that are unique to each of the 40 regional orders. GAO has reported that the premise for federal milk marketing orders is outdated. A need no longer exists to encourage and maintain a locally produced supply of milk. Milk is now produced in all regions of the country, and technologies are available to transfer it, either as fluid or in a form to be later reconstituted as fluid, should local shortages develop.

Given the change in underlying conditions for this program, the Congress may wish to consider reducing the federal role in milk pricing by taking actions such as phasing out the pricing provisions of the milk marketing orders. The probable effect of this change would be reduced purchases under the federal price support program as farmers cut production in response to reduced prices. Eliminating these provisions could also ultimately reduce the price of dairy products to consumers.

Five-Year Savings

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Budget authority	90	190	230	190	100
Outlays	90	190	230	190	100

Source: Congressional Budget Office, *Reducing the Deficit*, March 1994.

Related GAO Product

Milk Marketing Orders: Options for Change (GAO/RCED-88-9, March 21, 1988).

GAO Contact John W. Harman, (202) 512-5138

Option: Dairy Price Support Program

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (House)
Primary agency	Department of Agriculture
Account	Commodity Credit Corporation Fund (12-4336)
Spending type	Direct
Budget subfunction	Farm income stabilization

To ensure long-term viability, the dairy industry will have to increase its efforts to become more dependent on commercial markets—particularly international markets. A major factor that has impeded the dairy industry's ability to more effectively expand and compete in global markets has been the Price Support Program, which encourages the production of dairy products that do not always meet customers' requirements, and often result in U.S. market prices that exceed world prices. For example, the 1992 U.S. market price for cheese was \$1.19 per pound, while the world price was \$0.81 per pound. The cost of dairy support purchases was approximately \$395 million in fiscal year 1992 at a support price of \$10.10 per hundred-weight of milk equivalent, which continues to be the support price today. Furthermore, the dairy program has influenced the U.S. dairy industry to place more emphasis on production rather than marketing.

The Congress has taken steps to make the federal dairy program more responsive to market forces, particularly by reducing the support price. However, a recent GAO report showed that U.S. dairy prices still exceed world prices, limiting the price competitiveness of U.S. dairy products in the world market. To counteract this situation, the Congress established the Dairy Export Incentive Program, which subsidizes exports of dairy products and cost about \$140 million in calendar year 1992.

GAO has recommended making the dairy program more responsive to market forces by tying the support price to the market, thereby effectively reducing the support price. USDA reported that it has been estimated that the support price would have to be reduced to between \$6 and \$7 per hundred-weight to achieve significant exports of U.S. dairy products. GAO has also advocated that support prices be lowered gradually to allow producers who have made production decisions based on the program a period of time to adjust to the new prices.

Appendix II
Reassess Objectives

To address these issues, the Congress may wish to reduce the dairy support price by \$0.80 annually over five years, beginning in fiscal year 1995. This would eliminate the need for the Dairy Export Incentive Program and the producer assessments supporting the program.

Five-Year Savings

Dollars in millions

	FY95	FY96	FY97	FY98	FY99
Budget authority	33	236	327	281	183
Outlays	33	236	327	281	183

Source: Congressional Budget Office.

Related GAO Product

Dairy Industry: Potential for and Barriers to Market Development
(GAO/RCED-94-19, December 21, 1993).

GAO Contact John W. Harman, (202) 512-5138

**Option:
Construction of
Veterans' Medical
Care Facilities**

Authorizing committees	Veterans' Affairs (Senate and House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Veterans Affairs (VA)
Account	Construction (36-0110)
Spending type	Discretionary
Budget subfunction	Hospital and medical care for veterans

Annually, VA spends about \$500 million on construction of medical care facilities. Currently, VA is planning to build new hospitals in Honolulu, Hawaii; East Central Florida; and northern California. Construction of additional VA capacity would add to the surplus of hospital beds that already exists in many of the communities where VA plans to build hospitals. The administration's health plan would authorize an additional \$3.3 billion in start-up funds to establish 400-800 additional clinics and remodel existing facilities. If universal health care coverage is adopted, the demand for VA hospital care could decrease by about 50 percent, and demand for outpatient care could decrease by about 40 percent.

The Congress may wish to limit construction of additional VA health care facilities until reforms of the nation's health care financing system and VA eligibility take shape. If the Congress cuts new major construction projects by 80 percent, as proposed in the administration's fiscal year 1995 budget request, the following savings could be achieved.

Five-Year Savings

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Budget authority	303	311	320	328	337
Outlays	14	53	110	171	229

Source: Congressional Budget Office.

Related GAO Products

Veterans' Health Care: Potential Effects of Health Care Reforms on VA's Major Construction Program (GAO/HRD-T-93-19, May 6, 1993).

Veterans' Health Care: Potential Effects of Health Financing Reforms on Demand for VA Services (GAO/HRD-T-93-12, March 31, 1993).

Veterans' Health Care: Potential Effects of Health Reforms on VA Construction (GAO/T-HRD-93-7, March 3, 1993).

VA Health Care: Actions Needed to Control Major Construction Cost (GAO/HRD-93-75, February 26, 1993).

Transition Series: Veterans' Affairs Issues (GAO/OCG-93-21TR, December 1992).

GAO Contact David P. Baine, (202) 512-7101

**Option:
Industrial
Development Bonds
and Qualified
Mortgage Bonds**

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of the Treasury

Industrial development bonds (IDB), issued by state and local governmental authorities, are used to help finance the creation or expansion of manufacturing facilities. Qualified mortgage bonds (QMB), issued by state and local housing agencies, allow home buyers to receive below-market rates on their mortgages. Interest earned by investors on IDBs on QMBs is exempt from federal income taxes.

In 1993, the Congress extended the authority for state and local governments to issue new IDBs, and made permanent the authority of state and local governments to issue QMBs. However, GAO believes that the achievement of public benefits from both IDBs and QMBs is questionable.

GAO found that (1) job creation attributed to IDB projects would likely have occurred without issuance of the bonds in the three states reviewed; (2) there is no evidence to support the contention that IDBs achieve significant public benefits, such as providing economic growth to depressed areas; and (3) most developers contacted said that they would have proceeded with their projects in the absence of IDBs. Similarly, GAO found that QMBs (1) do little to increase home ownership, (2) are usually provided to home buyers who do not need them to obtain a conventional (unassisted) mortgage loan, and (3) are not cost-effective.

Both IDBs and QMBs could be better targeted. For example, IDBs could be focused on economically distressed areas or to start-up companies, and QMBs could be directed toward home buyers who could not reasonably qualify for unassisted conventional loans. However, because of evidence that neither IDBs nor QMBs are achieving their intended benefits and in view of lost tax revenues, the Congress may wish to consider repealing both provisions. Estimated revenues gained from eliminating IDBs and QMBs are shown in the table below.

Five-Year Revenues

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Revenue gain	43	155	277	369	446

Source: Joint Committee on Taxation.

Related GAO Products

Industrial Development Bonds: Achievement of Public Benefits Is Unclear
(GAO/RCED-93-106, April 22, 1993).

Home Ownership: Limiting Mortgage Assistance Provided to Owners With High Income Growth (GAO/RCED-90-117, September 26, 1990).

Home Ownership: Targeting Assistance to Buyers Through Qualified Mortgage Bonds (GAO/RCED-88-190BR, June 27, 1988).

Home Ownership: Mortgage Bonds Are Costly and Provide Little Assistance to Those in Need (GAO/RCED-88-111, March 28, 1988).

GAO Contact Judy A. England-Joseph, (202) 512-7631

**Option:
Deductibility of Home
Equity Loan Interest**

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service (IRS)

The term home equity borrowing or financing is usually applied to mortgages other than the original loan used to acquire a home or to any subsequent refinancing of that loan. Interest is deductible up to \$100,000 of home equity indebtedness and \$1 million of indebtedness used to acquire a home. Home equity financing grew at an average annual rate of about 20 percent between 1981 and 1991. Home equity financing is not limited to home-related uses and can be used to finance additional consumption by borrowers.

Use of mortgage-related debt to finance non-housing assets and consumption purchases through home equity loans could expose borrowers to increased risk of losing their homes should they default. Equity concerns may exist because middle- and upper-income taxpayers who itemize primarily take advantage of this tax preference, and such an option is not available to people who rent their housing.

One way to address the issues concerning the amounts or uses of home equity financing would be to limit mortgage interest deductibility to first mortgages only, but a Joint Committee on Taxation revenue estimate was not available at time of publication. Another approach would be to cap the total annual deductible mortgage interest at \$12,000 for a single individual and \$20,000 for married couples. Assuming an effective date of January 1, 1995, this option would generate the following revenues.

Five-Year Revenues

Dollars in millions

	FY95	FY96	FY97	FY98	FY99
Revenue gain	2,400	6,700	7,200	7,400	7,600

Source: Joint Committee on Taxation.

Related GAO Product

Tax Policy: Many Factors Contributed to the Growth in Home Equity Financing in the 1980s (GAO/GGD-93-63, March 25, 1993).

GAO Contact Jennie S. Stathis, (202) 512-5407

**Option:
Tax Treatment of
Interest Earned on
Life Insurance
Policies and Deferred
Annuities**

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service

Interest earned on life insurance policies and deferred annuities, known as "inside buildup," is not taxed as long as it accumulates within the contract. Although the deferred taxation of inside buildup is similar to the tax treatment of income from some other investments, such as capital gains, it differs from the policy of taxing interest as it accrues on certain other investments, like certificates of deposit and original issue discount bonds.

Not taxing inside buildup may have merit if it increases the amount of insurance coverage purchased and the amount of income available to retirees and beneficiaries. However, the tax preference given life insurance and annuities mainly benefits middle- and upper-income people. Adequate coverage for low-income people is largely provided through the Social Security System, which provides both insurance and annuity protection. Studies on the adequacy of life insurance protection are not conclusive.

The Congress may want to reconsider granting preferential tax treatment to inside buildup, weighing the social benefits against the revenue foregone. The Congress may wish to consider taxing the interest earned on life insurance policies, and the revenue estimate below reflects this option.

Five-Year Revenues

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Revenue gain	4,200	10,300	9,700	9,000	8,300

Source: Congressional Budget Office, Reducing the Deficit, March 1994.

Related GAO Product

Tax Policy: Tax Treatment of Life Insurance and Annuity Accrued Interest (GAO/GGD-90-31, January 29, 1990).

GAO Contact Jennie S. Stathis, (202) 512-5407

**Option:
Targeted Jobs Tax
Credit**

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agencies	Department of Labor Department of the Treasury

The Targeted Jobs Tax Credit (TJTC) program is intended to increase employment opportunities for members of the targeted groups by providing a financial incentive to employers to recruit, hire and retain target group members. Over the past 10 years, employers have claimed an estimated \$4.5 billion in tax credits under the program. GAO obtained national TJTC program information from the Department of Labor and the Department of the Treasury. GAO also gathered information on employers and workers participating in the program for 13 states, and interviewed officials from 60 companies in 2 states. GAO found that over half (55 percent) of the employers in our sample took advantage of the tax credit without making special efforts to hire members of the targeted group; the remaining employers in our analysis (45 percent) appeared to make some special effort to recruit, hire or retain members of the targeted group. Moreover, eligible nonparticipating workers experienced similar increases in earnings as workers participating in the tax credit program.

GAO suggested one way to improve the program's impact on the targeted population would be to require employers to conduct special outreach, prescreening and training efforts. On the other hand, the Congress may decide that this program is no longer justified by an analysis of the benefits in comparison to its costs and terminate the tax credit.

The estimate below assumes termination of the credit on July 1, 1994—6 months before its scheduled expiration of December 31, 1994. Since the tax credit is removed from the baseline after its expiration, no further revenue gains can be attributed beyond this time.

Five-Year Revenues

Dollars in millions

	FY95	FY96	FY97	FY98	FY99
Revenue gain	54	35	14	6	1

Source: Joint Committee on Taxation.

Related GAO Product

Targeted Jobs Tax Credit: Employer Actions to Recruit, Hire and Retain Eligible Workers Vary (GAO/HRD-91-33, February 20, 1991).

GAO Contact Linda G. Morra, (202) 512-7014

Redefine Beneficiaries

Option: Copayments for Care in Military Hospitals

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Account	Defense Health Program (97-0130)
Spending type	Discretionary
Budget subfunction	DOD-Military

Currently, care received by military beneficiaries in military hospitals and clinics is free. However, when care must be obtained through civilian providers, military beneficiaries share in the costs of the care they receive. This uneven system has led to confusion, uncertainty, and inequity among beneficiaries as to what their health care benefits are. Further, research has shown that free care leads to greater (and unnecessary) utilization and, therefore, greater costs.

DOD has suggested a new set of cost-sharing requirements for care provided by civilian network providers under its health care reform proposal. However, the proposal maintains free care to beneficiaries in military facilities, thereby continuing the inequity and overutilization problems.

The Congress may wish to establish beneficiary cost-sharing requirements for care received in military hospitals similar to the DOD health care reform proposal for care that beneficiaries will receive from civilian facilities.

Five-Year Savings

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Budget authority	350	350	350	360	360
Outlays	270	330	350	350	360

Source: Congressional Budget Office, Reducing the Deficit, March 1994.

Related GAO Products

Defense Health Care: Lessons Learned From DOD's Managed Health Care Initiatives (GAO/T-HRD-93-21, May 10, 1993).

Defense Health Care: Obstacles in Implementing Coordinated Care (GAO/T-HRD-92-24, April 7, 1992).

Defense Health Care: Implementing Coordinated Care—A Status Report (GAO/HRD-92-10, October 3, 1991).

The Military Health Services System—Prospects for the Future (GAO/T-HRD-91-11, March 14, 1991).

GAO Contact David P. Baine, (202) 512-7101

**Option:
Agricultural Income
Support Payments**

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (House)
Primary agency	Department of Agriculture
Account	Commodity Credit Corporation Fund (12-4336)
Spending type	Direct
Budget subfunction	Farm income stabilization

The Commodity Credit Corporation has supported the incomes of farmers since the 1930s. Concerned about large payments to farm operators and the overall cost of federal farm programs, the Congress established an annual limit on farm payments of \$50,000 per person in 1970. Persons are broadly defined to be individuals, members of joint operations, or entities such as limited partnerships, corporations, associations, trusts, and estates. Payment limits again became a significant issue in the mid-1980s when individuals reorganized their farming operations to receive larger total federal payments.

In 1987, legislative amendments allowed a person to receive up to \$100,000 of farm payments per year. These amendments, intended to tighten the payment limit requirements and reduce program costs, have had a very limited effect because

- farmers were allowed to reorganize their operations, within a specified time period, to avoid reductions in total payments;
- USDA required only 50 percent of a corporation's ownership to provide significant contributions of personal labor or active personal management to meet the requirement that the corporation be actively engaged in farming; and
- farmers were allowed to qualify for payments from up to three eligible entities.

If the Congress wants to further tighten payment limits as a means to reduce program costs, one option would be to limit payments to \$50,000 per individual and only provide benefits to individuals actively engaged in farming. This limit would apply whether the payments are earned from the individual's own operations or are attributed to them as owners in one or more entities. A higher limit could be established for specific crops that

**Appendix III
Redefine Beneficiaries**

would not be considered economically viable if held to the \$50,000 per individual limit.

Five-Year Savings

Dollars in millions

	FY95	FY96	FY97	FY98	FY99
Budget authority	60	140	150	160	160
Outlays	60	140	150	160	160

Source: Congressional Budget Office, Reducing the Deficit, March 1994.

Related GAO Products

Agriculture Payments: Number of Individuals Receiving 1990 Deficiency Payments and the Amounts (GAO/RCED-92-163FS, April 27, 1992).

Agriculture Payments: Effectiveness of Efforts to Reduce Farm Payments Has Been Limited (GAO/RCED-92-2, December 5, 1991).

Farm Payments: Basic Changes Needed to Avoid Abuse of the \$50,000 Payment Limit (GAO/RCED-87-176, July 20, 1987).

GAO Contact John W. Harman, (202) 512-5138

**Option:
Fees for Child Support
Enforcement Services**

Authorizing committees	Finance (Senate) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Health and Human Services (HHS)
Account	Family Support Payments to States (75-1501)
Spending type	Direct
Budget subfunction	Other income security

The purpose of the Child Support Enforcement Program is to strengthen state and local efforts to obtain child support for both families eligible for Aid to Families with Dependent Children (AFDC) and non-AFDC families. The services provided to clients include locating noncustodial parents, establishing paternity, and collecting ongoing and delinquent child support payments. From fiscal year 1984 through 1992, non-AFDC caseloads and costs have risen 247 percent and 435 percent, respectively. States have exercised their discretion to charge only minimal application and service fees and, thus, are doing little to recover the federal government's 66-percent share of program costs. In fiscal year 1992, for example, state fee practices returned \$29 million of the \$850 million spent to provide non-AFDC services.

GAO believes that mandatory application fees should be dropped and that states should charge a minimum percentage service fee on successful collections for non-AFDC families. Application fees are administratively burdensome, and a service fee would ensure that families are charged only when the service has been successfully performed.

If the Congress wishes to fully recover the administrative costs of the program, a 15-percent service fee on collections for non-AFDC families would be necessary. Savings assume states will be able to implement this option beginning October 1, 1995.

Five-Year Savings

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Budget authority	•	810	880	960	1,040
Outlays	•	810	880	960	1,040

Source: Congressional Budget Office.

Appendix III
Redefine Beneficiaries

Related GAO Product

Child Support Enforcement: Opportunity to Defray Burgeoning Federal and State Non-AFDC Costs (GAO/HRD-92-91, June 5, 1992).

GAO Contact Joseph Delfico, (202) 512-7215

**Option:
Veterans' Disability
Compensation for
Non-Service
Connected Diseases**

Authorizing committees	Veterans' Affairs (Senate and House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Veterans Affairs
Account	Compensation (36-0153)
Spending type	Direct
Budget subfunction	Income security for veterans

During 1986, VA paid approximately \$1.7 billion in disability compensation payments to veterans with diseases neither caused nor aggravated by military service. Current data indicate that more than 390,000 veterans receive VA compensation payments for diseases that are generally neither caused by nor aggravated by military service. GAO's study of five countries shows that they do not compensate veterans under these circumstances.

The Congress may wish to reconsider whether such diseases should be compensated as service-connected disabilities. If disability compensation payments to veterans with non-service connected disease-related disabilities were eliminated in future cases, the following savings would apply.

Five-Year Savings

	FY95	FY96	FY97	FY98	FY99
Budget authority	39	81	125	173	224
Outlays	39	72	120	167	218

Source: Congressional Budget Office.

Related GAO Products

Disabled Veterans Programs: U.S. Eligibility and Benefit Types Compared with Five Other Countries (GAO/HRD-94-6, November 24, 1993).

VA Benefits: Law Allows Compensation for Disabilities Unrelated to Military Service (GAO/HRD-89-60, July 31, 1989).

GAO Contact David P. Baine, (202) 512-7101

**Option:
Cost Sharing for
Veterans' Long-Term
Care**

Authorizing committees	Veterans' Affairs (Senate and House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Veterans Affairs
Account	Medical Care (36-0160)
Spending type	Discretionary
Budget subfunction	Hospital and medical care for veterans

State veterans' homes recover as much as 50 percent of the costs of operating their facilities through charges to veterans receiving services. Similarly, Oregon recovers about 14 percent of the costs of nursing home care provided under its Medicaid program through estate recoveries. In fiscal year 1990, VA offset less than one-tenth of one percent of its costs through beneficiary copayments.

Potential recoveries appear to be greater within the VA system than under Medicaid. Home ownership is significantly higher among VA hospital users than among Medicaid nursing home recipients, and veterans living in VA nursing homes generally contribute less toward the cost of their care than do Medicaid recipients, allowing veterans to build larger estates.

The Congress may wish to consider increasing cost sharing for VA nursing home care by (1) adopting cost-sharing requirements similar to those imposed by most state veterans' homes and (2) implementing an estate recovery program similar to those operated by many states under their Medicaid programs. If VA recovered 25 percent of its costs of providing nursing home and domiciliary care through a combination of cost sharing and estate recoveries, the following savings would apply.

Five-Year Savings

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Budget authority	271	282	293	303	315
Outlays	270	280	291	302	313

Source: Congressional Budget Office.

Appendix III
Redefine Beneficiaries

Related GAO Products

VA Health Care: Potential for Offsetting Long-Term Care Costs Through Estate Recovery (GAO/HRD-93-68, July 27, 1993).

VA Health Care: Offsetting Long-Term Care Cost By Adopting State Copayment Practices (GAO/HRD-92-96, August 12, 1992).

GAO Contact David P. Baine, (202) 512-7101

**Option:
Formula-Based Grant
Programs**

Authorizing committees	Multiple
Appropriations subcommittees	Multiple
Primary agencies	Multiple
Accounts	Multiple
Spending type	Discretionary/Direct
Budget subfunctions	Multiple

GAO has issued many reports over the past decade showing that the distribution of federal grants to state and local governments is not well-targeted to those jurisdictions with greatest programmatic needs or lowest fiscal capacity to meet those needs. As a result, program recipients in areas with relatively lower needs and greater wealth may enjoy a higher level of services than is available in harder pressed areas, or the wealthier areas can provide the same level of services at lower tax rates than harder pressed areas.

At a time when federal domestic discretionary resources are constrained, better targeting of grant formulas offers a strategy to bring down federal outlays by concentrating reductions on wealthier localities with lesser needs and greater capacity to absorb the cuts. At the same time, redesigned formulas could hold harmless the hardest pressed areas who are most vulnerable.

Cuts in federal grants to states could be targeted by disproportionately reducing federal funds to states with the strongest tax bases and lesser needs. Cuts in federal grants to local governments could be targeted by either concentrating cuts on areas with the strongest tax bases or by changing program eligibility to restrict grant funding only to those places with lower fiscal capacity or greatest programmatic needs.

As an example, during the debate in 1986 over the termination of General Revenue Sharing, GAO reported that a better targeted formula and restricted eligibility could achieve a 50-percent cut in total outlays, while maintaining or increasing federal funds to harder pressed jurisdictions. Recently, the administration proposed reducing outlays for the Low Income Home Energy program by over \$1.2 billion for fiscal year 1995 by targeting the formula to concentrate remaining funds on states it views as having the greatest needs.

To illustrate the fiscal potential for this option, CBO estimated 5-year savings from a 10-percent reduction in the aggregate total of all closed-ended or capped formula grant programs exceeding \$1 billion. This group includes over 70 percent of the dollars for such programs, but excludes the major open-ended formula reimbursement programs, most notably AFDC and Medicaid. The savings estimate can serve as a benchmark for overall savings from this approach but should not be interpreted as a suggestion for across-the-board cuts. Rather, the Congress should determine specific reductions on a program-by-program basis, after examining the relative priority and performance of each grant program.

Five-Year Savings

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Discretionary programs					
Budget authority	3,320	3,420	3,520	3,610	3,720
Outlays	1,450	3,830	4,890	5,350	5,650
Direct spending					
Budget authority	2,420	2,420	2,500	2,550	2,610
Outlays	420	480	490	500	510

Source: Congressional Budget Office.

Related GAO Products

Medicaid: Alternatives for Improving the Distribution of Funds to States (GAO/HRD-93-112FS, August 20, 1993).

Remedial Education: Modifying Chapter 1 Formula Would Target More Funds to Those Most in Need (GAO/HRD-92-16, March 28, 1992).

Drug Treatment: Targeting Aid to States Using Urban Population as Indicator of Drug Use (GAO/HRD-91-17, November 27, 1990).

Local Governments: Targeting General Fiscal Assistance Reduces Fiscal Disparities (GAO/HRD-86-113, July 24, 1986).

Highway Funding: Federal Distribution Formulas Should Be Changed (GAO/RCED-86-114, March 31, 1986).

GAO Contact Joseph Delfico, (202) 512-7215

**Option:
Tax Treatment of
Health Insurance
Premiums**

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service

The current tax treatment of health insurance gives few incentives to workers to economize on purchasing health insurance. Employer contributions for employee health protection are considered deductible, ordinary, business expenses, and employer contributions are not included in an employee's taxable income. Some analysts believe that the tax-preferred status of these benefits has contributed to the overuse of health care services and large increases in our nation's health care costs. In addition, the primary tax benefits accrue to those in high tax brackets who also have above average incomes.

Placing a cap on the amount of health insurance premiums that could be excluded—that is including in a worker's income the amount over the cap—could improve incentives and, to a lesser extent, tax equity. Alternatively, including health insurance premiums in income but allowing a tax credit for some percentage of the premium would improve equity since tax savings per dollar of premium would be the same for all taxpayers. Incentives could be improved for purchasing low-cost insurance if the amounts given credits were capped.

One specific option the Congress may wish to consider would be to tax all employer-paid health insurance, while providing a refundable tax credit of 20 percent of all premiums, with eligible premiums capped at \$375 and \$175 per month for family coverage and individuals, respectively. This option recognizes the gain from changing the treatment of insurance only for the individual income tax, not the payroll tax.

Five-Year Revenues

Dollars in millions

	FY95	FY96	FY97	FY98	FY99
Revenue gain	27,200	4,300	7,100	10,300	13,800

Source: Congressional Budget Office, Reducing the Deficit, March 1994.

Appendix III
Redefine Beneficiaries

Related GAO Product

Tax Policy: Effects of Changing Tax Treatment of Fringe Benefits
(GAO/GGD-92-43, April 7, 1992).

GAO Contact Jennie S. Stathis, (202) 512-5407

Improve Efficiency

Option: Burden Sharing in the Republic of Korea

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Accounts	Operation and Maintenance, Army (21-2020), Air Force (57-3400), Navy (17-1804)
Spending type	Discretionary
Budget subfunction	DOD-Military

The United States expects to spend \$686 million in fiscal year 1994, and spent \$711 million in 1993, on operations and maintenance to support American troops in the Republic of Korea. Operations and maintenance costs include salaries of local national employees working for the U.S. military, utilities, and services. In 1994, won-based national labor costs will amount to an equivalent of about \$289 million, or 42 percent of the total estimated operations and maintenance costs. However, in 1993, the Republic of Korea only paid an equivalent of about \$80 million of the won-based labor costs incurred in that year.

Currently the United States is negotiating with the Republic of Korea to increase its support for these costs. GAO believes that the United States should seek an agreement with the Republic of Korea to pay all of the won-based national labor costs. Attaining this goal would significantly reduce the costs to maintain the U.S. presence in Korea. However, in the absence of an agreement, the savings presented in the table below could only be achieved by actually cutting defense programs in Korea or elsewhere.

Five-Year Savings

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Budget authority	202	209	216	222	231
Outlays	152	195	209	218	226

Source: Congressional Budget Office.

Related GAO Products

Military Presence: U.S. Personnel in the Pacific Theater (GAO/NSIAD-91-192, August 20, 1991).

U.S.-Japan Burden Sharing: Japan Has Increased Its Contributions But Could Do More (GAO/NSIAD-89-188, August 15, 1989).

GAO Contact Joseph E. Kelley, (202) 512-4128

Option:
Defense
Infrastructure

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	DOD-Military

As DOD realigns and downsizes, it needs to ensure that the remaining infrastructure is downsized commensurate with the remaining forces. As pointed out in DOD's self-initiated Bottom Up Review, there are numerous opportunities to reduce the defense infrastructure without affecting readiness. In fact, reducing the infrastructure could enhance readiness in that moneys now being spent to maintain unneeded infrastructure could be applied to readiness enhancement measures. Significant budget reductions could be achieved by streamlining the command structure of the remaining forces; sharing medical facilities and services; consolidating depots and shipyards; reforming acquisition processes; consolidating and eliminating research, development, and training facilities; using simulators for training and exercises; and reducing dependence on government-owned housing.

Savings for this option cannot be estimated until a comprehensive consolidation and downsizing plan is specified. According to the Bottom Up Review, infrastructure areas and processes accounted for \$160 billion of the \$254 billion fiscal year 1994 Defense budget.

Related GAO Products

1994 DOD Budget: Potential Reductions to the Operation and Maintenance Budget (GAO/NSIAD-93-295BR, September 16, 1993).

Depot Maintenance: Issues in Management and Restructuring to Support a Downsize Military (GAO/T-NSIAD-93-13, May 6, 1993).

GAO Contact Donna M. Heivilin, (202) 512-8412

Option: Defense Inventories

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	DOD-Military

Over 100 GAO reports have pointed out DOD inventory management problems and have shown that DOD has continuously bought and stored items that greatly exceeded its operational and war reserve needs. Systemic problems in determining requirements and inadequate financial accountability and control have contributed to poor inventory management practices. Further, DOD's culture has traditionally emphasized overbuying and placed little value on economy and efficiency, causing unneeded items to pile up in warehouses. Force reductions and base closures will only compound the situation and result in additional unneeded inventory.

DOD has been slow to implement private sector practices that could reduce inventory costs. In this regard, the Defense Logistics Agency has recently begun conducting pilot programs to demonstrate the applicability of commercial practices and to tailor changes required in each of their facilities so that the successful results of the programs could be applied in supply and distribution.

Systemic reforms—such as improving the way inventory requirements are determined, using commercial inventory management practices, and changing financial management policies and practices—are needed to achieve further reductions in DOD's budget requirements. Savings estimates can not be developed until specific proposals are developed to address these issues. However, GAO estimates that, as of September 1992, only \$41 billion of the \$80 billion inventory on hand was needed to support military forces and assure readiness. Most recently, GAO work led to a \$3 billion reduction in DOD's fiscal year 1993 budget request.

Related GAO Products

Commercial Practices: DOD Could Save Millions By Reducing Maintenance and Repair Inventories (GAO/NSIAD-93-155, June 7, 1993).

DOD Food Inventory: Using Private Sector Practices Can Reduce Costs and Eliminate Problems (GAO/NSIAD-93-110, June 4, 1993).

DOD Medical Inventory: Reductions Can Be Made Through the Use of Commercial Practices (GAO/NSIAD-92-58, December 5, 1991).

Defense Inventory: Top Management Attention Is Crucial (GAO/NSIAD-90-145, March 26, 1990).

GAO Contact Donna M. Heivilin, (202) 512-8412

**Option:
Navy's Sound
Surveillance System**

Authorizing committees	Armed Services (House and Senate)
Appropriations subcommittees	Defense (House and Senate)
Primary agency	Department of Defense
Accounts	Operation and Maintenance, Navy (17-1804); Military Personnel, Navy (17-1453); Research, Development, Test, and Evaluation, Navy (17-1319); Other Procurement, Navy (17-1810); Military Construction, Navy (17-1205)
Spending type	Discretionary
Budget subfunction	DOD-Military

Because of changes and significant reductions in the operational patterns of Russian submarines, the Navy can reduce the level of its underseas surveillance operations. In a 1992 classified report, GAO presented three options for reducing unnecessary operations, each having an increasing level of risk. GAO recommended that the Secretary of Defense direct the Secretary of the Navy to review the sound surveillance system's planned expenditures for fiscal years 1994 through 1998 based on the differences between the Navy's desired level of operations and the proposed GAO options. The administration has proposed a reduction in the sound surveillance system budget for fiscal year 1995.

Of the three options GAO presented, fleet officials believed that the level of risk associated with the second GAO option was acceptable. To estimate savings for this option, a 10-percent reduction from the fiscal year 1994 sound surveillance system budget is shown in the table below.

Five-Year Savings

Dollars in millions

	FY95	FY96	FY97	FY98	FY99
Budget authority	29	30	31	32	33
Outlays	19	26	29	30	32

Source: Congressional Budget Office.

Related GAO Products

Roles and Functions: Assessment of the Chairman of the Joint Chief of Staff Report, (GAO/NSIAD-93-200, July 15, 1993).

Anti-Submarine Warfare: Opportunity to Reduce Navy's Sound Surveillance System, (GAO/C-NSIAD-93-4, May 6, 1993).

GAO Contact Richard A. Davis, (202) 512-3504

**Option:
Administering
Defense Health Care**

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Account	Defense Health Program (97-0130)
Spending type	Discretionary
Budget subfunction	DOD-Military

Each of the three military departments (Army, Navy, and Air Force) operates its own health care system, providing medical care to active duty personnel, their dependents, retirees, and survivors of military personnel. To a large extent, these systems perform many of the same administrative, management, and operational functions.

Since 1949 over 22 studies have reviewed whether a central entity should be created within DOD for the centralized management and administration of the three systems. Most of these studies encouraged some form of organizational consolidation. A Defense health agency would consolidate the three military medical systems into one centrally managed system, eliminating duplicate administrative, management, and operational functions.

No specific budget estimate can be developed until numerous variables, such as the extent of consolidation and the impact on command and support structures, are determined.

Related GAO Products

Defense Health Care: Lessons Learned From DOD's Managed Health Care Initiatives (GAO/T-HRD-93-21, May 10, 1993).

Defense Health Care: Obstacles in Implementing Coordinated Care (GAO/T-HRD-92-24, April 7, 1992).

Defense Health Care: Implementing Coordinated Care—A Status Report (GAO/HRD-92-10, October 3, 1991).

The Military Health Services System—Prospects for the Future (GAO/T-HRD-91-11, March 14, 1991).

GAO Contact David P. Baine, (202) 512-7101

Option: Conservation Reserve Program Contracts

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (House)
Primary agency	Department of Agriculture
Account	Conservation Reserve Program (12-3319)
Spending type	Direct
Budget subfunction	Conservation and land management

The Conservation Reserve Program (CRP) was mandated by the Food Security Act of 1985 to help farmers control soil erosion on environmentally sensitive cropland, decrease production of surplus agricultural commodities, and support farmers' income. To implement CRP, USDA offered 10- to 15-year contracts for rental payments to farmers who agreed to replace crop land with a grass cover or other conserving use. CRP contracts begin to expire in 1996. Between fiscal years 1995-2003, these contracts commit the government to pay \$7.8 billion in annual rental payments.

From its inception through 1992, about 36.5 million acres have been enrolled. For fiscal year 1994, the government's annual rental payments to farmers are estimated to be \$1.8 billion. Although enrolling acreage in CRP instead of annual commodity programs reduces costs in USDA's annual price and income support programs, USDA has estimated that the CRP has a net government cost between \$2 billion and \$6.6 billion over the life of the program.

Since 1985, several conditions have emerged that may warrant modifying CRP contracts to provide farmers more flexibility to use their CRP land for new crop and conservation opportunities. A favorable climate for CRP reform now exists due to a general improvement in the farm economy since the 1980s, potential new market growth arising from the North American Free Trade Agreement and the General Agreement on Tariffs and Trade, and the application of more sustainable practices of the conservation compliance program. Under these new conditions, modifying CRP contracts could release suitable acres for the development of new conservation cropping practices.

There are numerous options to modify CRP contracts to adjust to new conditions. Two options include (1) allowing farmers to terminate contracts without incurring financial penalty, and (2) permitting conservation-compatible economic uses on their CRP acres, such as haying, grazing, and biomass production. Budget savings under the first option would depend on assumptions concerning when and how many farmers participate and the extent to which these farmers participate in other USDA price and income support programs. Under the second option, the contract holder would receive a reduced rental payment in return for the ability to generate revenues on their CRP land.

Under both options, there are also non-budget considerations. If farmers terminate their CRP contracts early to return to crop production, it will be necessary to develop alternative means of sustaining the environmental benefits that have been achieved through CRP. If farmers are permitted to return some of their CRP acres to uses such as haying and grazing, there could be a significant economic impact on existing livestock producers.

Five-Year Savings

Dollars in millions

	FY95	FY96	FY97	FY98	FY99
Option: Voluntary contract termination					
Budget authority	170	170	160	100	60
Outlays	170	170	160	100	60
Option: Alternative economic uses					
Budget authority	58	58	56	34	20
Outlays	58	58	56	34	20

Source: Congressional Budget Office.

Related GAO Products

Conservation Reserve Program: Cost-Effectiveness Is Uncertain
(GAO/RCED-93-132, March 26, 1993).

Conservation Reserve Program: Determining Program's Effects on Production Depends on Assumptions (GAO/RCED-90-201, July 25, 1990).

Farm Programs: Conservation Reserve Program Could Be Less Costly and More Effective (GAO/RCED-90-13, November 15, 1989).

GAO Contact John W. Harman, (202) 512-5138

**Option:
Farm Lands Eligible
for Deficiency
Payments**

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (House)
Primary agency	Department of Agriculture
Account	Commodity Credit Corporation Fund (12-4336)
Spending type	Direct
Budget subfunction	Farm income stabilization

In the Food, Agriculture, Conservation, and Trade Act of 1990, the Congress provided farmers with greater ability to respond to market signals by allowing them to plant crops other than their designated program crops on up to 25 percent of their base acres. This flexibility was one of the principal elements in the overall strategy of the 1990 farm legislation aimed at improving U.S. competitiveness in the international agriculture market. The Agricultural Reconciliation Act of 1990 reduced government expenditures for agriculture programs by providing for the elimination of income support payments on 15 percent of base acres, even when the designated program crops are planted on these acres. Taken together, these laws enacted provisions which are commonly called "flex acres."

GAO has reported on a number of options for increasing the use of flex acres, all of which would require legislative change. Options include (1) increasing the number of normal flex acres ineligible for deficiency payments beyond the current 15-percent level, (2) increasing the number of optional flex acres, with corresponding decreases in deficiency payments, for those acres planted in alternative crops, or (3) permitting farmers to grow alternative crops on more than 25 percent of their base acres while continuing to receive deficiency payments on 75 percent of the acres. While the first option would clearly reduce government costs, the second and third options could also reduce costs as farmers increase their use of optional flex acres. All three options would allow farmers to participate in USDA's commodity programs while continuing to increase their incentive to respond to the needs of the marketplace.

One approach to implement the first option, above, would be to raise the proportion of each farmer's base acreage ineligible for deficiency

**Appendix IV
Improve Efficiency**

payments from 15 percent to 25 percent. Savings associated with this option are shown below.

Five-Year Savings

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Budget authority	360	790	880	930	980
Outlays	360	790	880	930	980

Source: Congressional Budget Office, Reducing the Deficit, March 1994.

Related GAO Product

Commodity Programs: Flex Acres Enhance Farm Operations and Market Orientation (GAO/RCED-94-76, December 30, 1993).

GAO Contact John W. Harman, (202) 512-5138

**Option:
 Department of
 Agriculture
 Organization**

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (House)
Primary agency	Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple

USDA administers its farm programs and services through one of the federal government's largest, most decentralized field structures. GAO has reported that one or more of the five farm service agencies maintained a presence in almost every one of the 3,150 counties in the United States. The existing structure reflects the era in which it was established—the 1930s, when communication and transportation systems were greatly limited by geographic boundaries. Since then, the number of farmers has declined sharply, and telephones, computers, and highways have increased farmers' access to information and assistance programs. Yet, the basic USDA field structure has undergone few major adjustments.

Reorganizing the USDA headquarters and field office structures, including the consolidation of current farm agencies, can better meet agricultural missions and improve customer service. One option that might be considered is the administration's proposal to restructure USDA's headquarters and field operations by closing or consolidating 1,200 field offices and eliminating 7,500 full-time positions over a 5-year period.

Five-Year Savings

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Budget authority	30	110	180	250	330
Outlays	30	110	180	250	330

Source: Congressional Budget Office, Reducing the Deficit, March 1994.

Related GAO Products

Revitalizing USDA: A Challenge for the 21st Century (GAO/T-RCED-93-62, July 21, 1993).

U.S. Department of Agriculture: Revitalizing Structure, Systems, and Strategies (GAO/RCED-91-168, September 3, 1991).

U.S. Department of Agriculture: Farm Agencies' Field Structure Needs Major Overhaul (GAO/RCED-91-9, January 29, 1991).

GAO Contact John W. Harman, (202) 512-5138

**Option:
 Hazardous Waste
 Cleanup Cost
 Recovery**

Authorizing committees	Environment and Public Works (Senate) Energy and Commerce (House) Public Works and Transportation (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Environmental Protection Agency (EPA)
Account	Hazardous Substance Superfund (20-8145)
Spending type	Discretionary
Budget subfunction	Pollution control and abatement

The Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) prevents EPA from charging polluters hundreds of millions of dollars in additional interest on the cost EPA incurs to clean up Superfund sites by setting an interest rate significantly lower than commercial rates. The Act also fails to explicitly authorize EPA to recover indirect costs, such as those for research and development. If EPA had been allowed to accrue interest at a commercial rate from the date funds were expended, GAO estimated that \$105 million in interest could have been accrued in 1990 on the funds EPA expended in fiscal year 1989 alone. GAO also estimated that through fiscal year 1988, EPA did not collect \$800 million in indirect clean-up costs incurred from activities such as administrative management, research and development on clean-up approaches, and some enforcement, audit and legal services.

The Congress should amend CERCLA to allow EPA to recover from responsible parties more interest on the cost it incurs to clean up Superfund sites and to explicitly authorize EPA to recover indirect costs.

Savings could not be estimated due to the lack of information on EPA's interest recoveries in prior years and EPA's varying success in collecting the full amount of current penalty and interest charges.

Related GAO Products

Superfund: More Settlement Authority and EPA Cost Controls Could Increase Cost Recovery (GAO/RCED-91-144, July 18, 1991).

Superfund: A More Vigorous and Better Managed Enforcement Program is Needed (GAO/RCED-90-22, December 14, 1989).

GAO Contact Peter Guerrero, (202) 512-6506

**Option:
Sampling for
Nonresponse in the
2000 Decennial
Census**

Authorizing committees	Governmental Affairs (Senate) Post Office and Civil Service (House)
Appropriations subcommittees	Commerce, Justice, State, and Judiciary (Senate and House)
Primary agency	Department of Commerce
Account	Periodic Censuses and Programs (13-0450)
Spending type	Discretionary
Budget subfunction	Other advancement of commerce

GAO believes that the Census Bureau should test sampling techniques to gather data on those who do not respond by mail to the census conducted in the year 2000, instead of attempting to contact in person every household that does not respond. The Census Bureau has agreed to test the feasibility and accuracy of sampling nonrespondents in 1995. GAO also has recommended that the Bureau study the use of sampling as soon as possible to analyze the comparative accuracy of this procedure with traditional census methods and that any possible legal issues concerning sampling be resolved as expeditiously as possible.

Savings estimates would vary according to the initial percentage of households that respond by mail, the chosen sampling rate, and the rate of inflation. However, using the 1990 response rates and a sample of 10 percent of the nonrespondents, the Census Bureau estimated that \$762 million could have been saved in 1992 dollars; using a sample of 50 percent of the nonrespondents, as much as \$347 million could have been saved.

CBO did not provide an estimate of budgetary savings for fiscal years 1995-1999 because no specific savings will accrue during that 5-year planning window. Any savings that would be achieved would be realized after the year 2000. Moreover, specific estimates would depend on which sampling plan was selected.

Related GAO Products

Decennial Census: Promising Proposals, Some Progress, But Challenges Remain (GAO/T-GGD-94-80, January 26, 1994).

Decennial Census: Test Design Proposals Are Promising, But Fundamental Reform Is Still at Risk (GAO/T-GGD-94-12, October 7, 1993).

Decennial Census: Focused Action Needed Soon to Achieve Fundamental Breakthroughs (GAO/T-GGD-93-32, May 27, 1993).

Decennial Census: Fundamental Reform Jeopardized by Lack of Progress (GAO/T-GGD-93-6, March 2, 1993).

Transition Series: Commerce Issues (GAO/OCG-93-12TR, December 1992).

Decennial Census: 1990 Results Show Need for Fundamental Reform (GAO/GGD-92-94, June 9, 1992).

GAO Contact William M. Hunt, (202) 512-8676

**Option:
Teaching Hospitals'
Medicare Payments**

Authorizing committees	Finance (Senate) Energy and Commerce (House) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Health and Human Services
Account	Federal Hospital Insurance Trust Fund Account (20-8005)
Spending type	Discretionary/Direct
Budget subfunction	Medicare

Medicare's Prospective Payment System pays hospitals with graduate medical education programs at higher rates than other hospitals receive for treating the same conditions. The higher payments are to compensate for the higher costs teaching hospitals incur, which are thought to be due to such factors as increased diagnostic testing, increased number of procedures performed, and higher staffing ratios. The teaching adjustment is based on the ratio of interns and residents per bed and currently is set at a 7.65-percent increase in payments for each 0.1 increment in the ratio.

In 1989, GAO found that the present adjustment factor was too high, because it did not explicitly consider all relevant teaching hospital costs and did not accurately measure all cost factors. Based on its analysis, GAO found that the adjustment should be no higher than 6.26 percent and could be as low as 3.73 percent. The 6.26-percent rate would better measure factors explicitly recognized by the current formula. The 3.73-percent rate expands on the current formula to reflect additional factors that affect teaching hospital costs.

The President has proposed a reduction in Medicare's indirect medical education payments as one means of funding his health care reform proposal. CBO's more recent analysis of these payments discusses rates of 6 percent and 3 percent. Savings for those rates are reflected in the following table.

**Appendix IV
Improve Efficiency**

Five-Year Savings

Dollars in millions

	FY95	FY96	FY97	FY98	FY99
Option: Reduce to 6-percent adjustment factor					
Outlays	730	890	970	1,050	1,150
Option: Reduce to 3-percent adjustment factor					
Outlays	2,050	2,500	2,750	3,000	3,250

Source: Congressional Budget Office, Reducing the Deficit, March 1994.

Related GAO Product

Medicare: Indirect Medical Education Payments Are Too High
(GAO/HRD-89-33, January 5, 1989).

GAO Contact Sarah F. Jaggard, (202) 512-7119

**Option:
Medicare Payments
for High Technology
Procedures**

Authorizing committees	Finance (Senate) Energy and Commerce (House) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Health and Human Services
Account	Federal Supplementary Medical Insurance Trust Fund (20-8004)
Spending type	Discretionary/Direct
Budget subfunction	Medicare

When new medical technologies first come into use, costs are often high because of such factors as initial capital expenditures and low utilization rates. Medicare payment rates are normally set during this period. Over time, the costs related to a particular technology often go down as equipment is improved, utilization increases, and experience with the technology results in efficiencies. However, Medicare does not have a process for routinely and systematically assessing these factors and its payment rates often remain at the original high levels.

Over the years, the Congress has reacted to the identification of specific overpaid procedures and services by legislatively reducing rates. For example, payments have been reduced for overpriced surgeries, selected items of durable medical equipment, and intraocular lenses. GAO believes that establishment of a systematic process for periodically evaluating the reasonableness of Medicare payment rates as technologies mature would result in significant program savings.

Savings have not been estimated because this option encompasses all procedures that are now or will be described as mature. Any savings would depend on the particular technologies for which Medicare payment rates are reduced.

Related GAO Product

Medicare: Excessive Payments Support the Proliferation of Costly Technology (GAO/HRD-92-59, May 27, 1992).

GAO Contact Sarah F. Jaggard, (202) 512-7119

**Option:
Medicare Payment
Safeguards**

Authorizing committees	Finance (Senate) Energy and Commerce (House) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services and Education (Senate and House)
Primary agency	Department of Health and Human Services
Accounts	Federal Hospital Insurance Trust Fund (20-8005); Federal Supplementary Medical Insurance Trust Fund (20-8004); Program Management (75-0511)
Spending type	Discretionary/Direct
Budget subfunctions	Health and Medicare

Medicare pays contractors to process claims, and one of the contractors' responsibilities is to ensure that Medicare only pays claims for covered services that are medically necessary and appropriate and for which Medicare is the primary payer. Such activities are referred to as program safeguards.

The funding contractors receive to review each claim has declined by over 20 percent since 1989. In response, contractors apply fewer or less stringent payment controls and claims are paid that otherwise would not be. Historically, payment safeguards have returned \$10 in savings for each dollar expended on them. GAO believes additional program safeguard funding is necessary to better protect the program against erroneous payments.

Although CBO does not disagree that increasing program safeguards can reduce Medicare outlays, it does not make budget estimates of such savings. This is because it is difficult to establish a clear connection between increases in administrative activities and savings that might accrue through changes in the operations of the program. In addition, even if such a connection can be established, the magnitude of savings attributable to such changes is not certain enough for budget scorekeeping purposes.

Related GAO Products

Medicare: Adequate Funding and Better Oversight Needed to Protect Benefit Dollars (GAO/T-HRD-94-59, November 12, 1993).

Medicare: Further Changes Needed to Reduce Program and Beneficiary Costs (GAO/HRD-91-67, May 15, 1991).

Medicare: Cutting Payment Safeguards Will Increase Program Costs (GAO/T-HRD-89-06, February 28, 1989).

Medicare and Medicaid: Budget Issues (GAO/T-HRD-87-1, January 29, 1987).

GAO Contact Sarah F. Jaggar, (202) 512-7119

Option: Funding the Pension Benefit Guaranty Corporation

Authorizing committees	Labor and Human Resources (Senate) Education and Labor (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Labor, Pension Benefit Guaranty Corporation (PBGC)
Account	Pension Benefit Guaranty Corporation Fund (16-4204)
Spending type	Discretionary/Direct
Budget subfunction	General retirement and disability insurance (excluding social security)

PBGC was established to insure guaranteed pension benefits in the event that defined pension benefit plans were terminated without being fully funded by the sponsoring company. At the end of fiscal year 1992, the PBGC's deficit had grown to \$2.7 billion, threatening the insurance program's long-term financial viability.

To reduce the exposure of PBGC to risk from ongoing, underfunded defined benefit pension plans, GAO analyzed whether the additional contribution rules contained in the Pension Protection Act of the Omnibus Budget Reconciliation Act of 1987 (OBRA 87) operate to bolster contributions made by sponsors of underfunded plans. The total underfunding in these plans exceeded \$50 billion in 1992. GAO's analyses show that (1) pension underfunding significantly increases when PBGC takes over the pension plan of a failed company, (2) the current additional funding rules are not adding substantially to pension funding because of offsets that sponsors use to reduce or eliminate additional contributions, and (3) proposed rules to change these additional funding rules will not significantly improve pension funding for many underfunded plans. GAO believes that OBRA 87 rules need to be modified to better ensure that plan sponsors will make additional contributions to underfunded pensions, and variable rate premiums paid by underfunded plans need to be made more risk related.

The administration has proposed eliminating the variable rate premium cap in its fiscal year 1995 budget and has also suggested designing a risk-based premium system that would consider a company's financial condition as well as the degree to which the plans are funded. In the following chart, savings estimates for two specific proposals are presented: (1) eliminating the cap on variable rate premiums by 1997 and (2) raising the variable rate premium from \$9 to \$18 for each \$1,000 of

unfunded vested benefits per participant. The 5-year savings for these proposals are net of the federal revenue loss that will result when companies deduct the higher premiums to compute their income taxes. Given the underlying deficit in the PBGC fund, the Congress may also wish to use these savings to improve the solvency of the fund rather than for other purposes.

Five-Year Savings

Dollars in millions

	FY95	FY96	FY97	FY98	FY99
Option: Eliminate the cap on variable rate premiums					
Outlays	90	280	460	460	450
Option: Raise the variable rate premium from \$9 to \$18					
Outlays	130	130	130	130	130

Source: Congressional Budget Office.

Related GAO Products

Pension Plans: Hidden Liabilities Increase Claims Against Government Insurance Programs (GAO/HRD-93-29, March 31, 1993).

Private Pensions: Most Underfunded Plan Sponsors Are Not Making Additional Contributions (GAO/T-HRD-93-16, April 20, 1993).

Assessing PBGC's Short-Run and Long-Run Conditions (GAO/T-HRD-93-1, February 1, 1993).

Pension Plans: Benefits Lost When Plans Terminate (GAO/T-HRD-92-58, September 24, 1992).

Financial Condition of the Pension Benefit Guaranty Corporation (GAO/T-HRD-92-52, August 11, 1992).

GAO Contact Joseph Delfico, (202) 512-7215

**Option:
Social Security
Continuing Disability
Reviews**

Authorizing committees	Finance (Senate) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Health and Human Services
Accounts	Federal Disability Insurance Trust Fund (20-8007); Federal Hospital Insurance Trust Fund (20-8005); Federal Supplementary Medical Insurance Trust Fund (20-8004); Federal Old-Age and Survivors Insurance Trust Fund (20-8006)
Spending type	Discretionary/Direct
Budget subfunction	Social Security

Between 1987 and 1993, the Social Security Administration (SSA) completed less than half the disability reviews required by law. Such reviews often find that Disability Income beneficiaries are no longer disabled and may be removed from the rolls. According to SSA, the lack of continuing disability reviews in the last 4 years will cost the trust funds about \$1.4 billion through 1997.

GAO believes that SSA should examine ways to increase the number of such reviews and to make existing reviews more efficient. Although CBO does not disagree that increasing disability reviews can reduce outlays, it does not make budget estimates of such savings. This is because it is difficult to establish a clear connection between increases in administrative activities and savings that might accrue through changes in the operations of a program. In addition, even if such a connection can be established, the magnitude of savings attributable to such changes is not certain enough for budget scorekeeping purposes.

Related GAO Products

Social Security: Increasing Number of Disability Claims and Deteriorating Service (GAO/HRD-94-11, November 10, 1993).

Social Security Disability: SSA Needs to Improve Continuing Disability Program (GAO/HRD-93-109, July 8, 1993).

Social Security: SSA's Processing of Continuing Disability Reviews (GAO/T-HRD-93-9, March 9, 1993).

GAO Contact Joseph Delfico, (202) 512-7215

**Option:
 The 1-Dollar Coin**

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Banking, Finance and Urban Affairs (House)
Primary agency	Department of the Treasury

Because of its longer life and easier processing than a note, and because the seignorage recognized reduces the amount of borrowing needed to finance the deficit, substituting a dollar coin for a dollar note would yield significant savings to the government. Other countries have demonstrated that public resistance to such a change can be managed and overcome.

The direct budgetary savings from this option are small during the CBO five-year estimating period. These savings, shown in the table below, result from increases in payments of earnings by the Federal Reserve Bank into miscellaneous receipts of the Treasury.

There are other longer term and more substantial savings due to the effects of seigniorage. Seigniorage is the difference between the face value of the coin and the coin's cost of production, which includes the value of the metals contained in the coin and the Mint's manufacturing and distribution costs. Seigniorage is not considered part of the budget, but it does substitute for borrowing from the public and, thus, lowers interest costs to the government. CBO does not calculate interest savings for specific options. However, a May 1992 Federal Reserve study estimated that these indirect savings would average about \$400 million per year over 30 years, but that level of savings would not be reached until the coin was in use for 14 years.

Five-Year Revenues

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Revenue gains	•	•	12	49	51

Source: Congressional Budget Office.

Related GAO Products

1-Dollar Coin: Reintroduction Could Save Millions if Properly Managed
(GAO/GGD-93-56, March 11, 1993).

National Coinage Proposals: Limited Public Demand for New Dollar Coin
or Elimination of Pennies (GAO/GGD-90-88, May 23, 1990).

GAO Contact J. William Gadsby, (202) 512-8387

**Option:
Judiciary's
Long-Range Space
Planning System**

Authorizing committees	Environment and Public Works (Senate) Public Works and Transportation (House)
Appropriations subcommittees	Treasury, Postal Service, and General Government (Senate and House)
Primary agency	Administrative Office of the U.S. Courts (AOC)
Account	Federal Buildings Fund (47-4542)
Spending type	Discretionary
Budget subfunction	General property and records management

In 1988, the AOC, the administrative body for the judiciary, developed a long-range plan for space needs. Based on 1992 space projections by the AOC, GAO estimated that the total space requirements for courts and related agencies would increase to about 36.9 million square feet over a 10-year period—a 97-percent increase. GAO found that AOC's planning process resulted in higher estimates for court space than is warranted. Using the judiciary's \$31 per square foot average cost for all court space, GAO showed that the judiciary could save approximately \$112 million annually, or \$1.1 billion in constant dollars over a 10-year period, if the errors in its planning process were corrected.

The Congress should direct the judiciary to revise its planning process for identifying long-range space needs. Specifically, the process should (1) treat all judicial districts consistently in terms of assumptions between caseloads, staff and space, (2) establish a baseline of space needs for each district that reflects current caseloads, and (3) increase the reliability of its estimates by using an appropriate statistical methodology to project caseloads and by reducing the level of subjectivity in the process.

Because of uncertainty about the nature and extent of changes that might be made to the planning process, no specific budget savings estimate was developed for this option.

Related GAO Product

Federal Judiciary Space: Long-Range Planning Process Needs Revision
(GAO/GGD-93-132, September 28, 1993).

GAO Contact William M. Hunt, (202) 512-8676

**Option:
General Services
Administration Supply
Depot System**

Authorizing committees	Governmental Affairs (Senate) Government Operations (House)
Appropriations subcommittees	Treasury, Postal Service, and General Government (Senate and House)
Primary agency	General Services Administration (GSA)
Account	General Supply Fund (47-4530)
Spending type	Direct
Budget subfunction	General property and records management

GSA uses a multimillion dollar supply depot and distribution system to help meet federal agencies' mission-support needs. GSA buys and warehouses some 18,000 common-use supply products and resells and ships them to federal agencies through a network of five depots. GSA also uses direct delivery from suppliers as an alternative method of supplying products, but during the period of GAO's most recent review, February 1990 to February 1991, only \$68 million of its \$1 billion in sales was supplied by this method.

GAO has reported that GSA's markup for products delivered directly from suppliers to federal agencies was 10 percent of product cost, while products stored and shipped from GSA warehouses were marked up an average of 29 percent. Recently, GSA increased both mark-ups to 22 percent and 32 percent, respectively. Although lessened, the difference between the two delivery options is still significant and reflects the higher costs associated with maintaining and operating a large warehouse distribution system.

GAO's review showed that GSA could have used direct delivery as its principal method of supplying products for about 80 percent of its fiscal year 1991 sales. And, if this had been done, the remaining sales from the GSA depots would have been for very small dollar value orders (that is, less than \$100). For this type of order, GSA is no longer a mandatory source for federal agencies, because of the emergence of the highly competitive discount office supply industry and catalog-based delivery services.

Maintaining a large and costly depot warehouse and distribution system may no longer be a viable or necessary activity for the federal government. As part of its efforts to bring about a restructuring of the way agencies obtain mission-support services, the Vice President's National Performance Review also recommended that agencies should be permitted

Appendix IV
Improve Efficiency

choice in sources of supply. One option the Congress could consider would be to close the GSA depots and require direct delivery from vendors for high dollar value supplies.

Five-Year Savings

Dollars in millions

	FY95	FY96	FY97	FY98	FY99
Budget authority	15	31	46	47	49
Outlays	11	27	42	47	48

Source: Congressional Budget Office.

Related GAO Products

General Services Administration: Increased Direct Delivery of Supplies Could Save Millions (GAO/GGD-93-32, December 28, 1992).

Transition Series: General Services Issues (GAO/OCG-93-28TR, December 1992).

GAO Contact J. William Gadsby, (202) 512-8387

**Option:
Employment and
Training Programs**

Authorizing committees	Multiple
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Multiple
Account	Multiple
Spending type	Discretionary
Budget subfunction	Multiple

The challenges posed by increased global competition and a changing economy calls for a renewed commitment to invest in the American workforce. The federal government's effort to meet this commitment has been to increase investment in a wide array of programs that target people experiencing barriers to employment and to add other new programs that target particular groups. GAO has identified a total of 154 federal programs and funding streams providing employment and training assistance. These programs are spread across 14 departments and independent agencies with a total budget of about \$25 billion.

GAO's analysis of programs that target the economically disadvantaged showed those programs to have similar goals, often served the same categories of people, and provided many of the same services using separate, yet parallel, delivery structures. This overlap can add unnecessary administrative costs at each level of government—federal, state, and local.

The administration is headed in the right direction with its proposal to consolidate nine of these programs serving dislocated workers. However, this consolidation needs to be part of a larger restructuring of employment training programs.

No specific estimate of budget savings can be made. The amount of any savings from consolidating programs will depend on how many programs are included, the degree and kind of reductions, and the level of federal involvement. In addition, the amount of savings will depend on the extent to which administrative cost savings are used to offset overall program outlays.

Related GAO Products

Multiple Employment Training Programs: Major Overhaul Is Needed
(GAO/T-HEHS-94-109, March 3, 1994).

Multiple Employment Training Programs: Overlapping Programs Can Add Unnecessary Administrative Costs (GAO/HEHS-94-80, January 28, 1994).

Multiple Employment Training Programs: Conflicting Requirements Hamper Delivery of Services (GAO/HEHS-94-78, January 28, 1994).

Multiple Employment Programs: National Employment Training Strategy Needed (GAO/T-HRD-93-27, June 18, 1993).

Multiple Employment Programs (GAO/HRD-93-26R, June 15, 1993).

Multiple Employment Programs (GAO/HRD-92-39R, July 24, 1992).

GAO Contact Linda G. Morra, (202) 512-7014

**Option:
Federal Agency Credit
Management
Programs**

Authorizing committees	Multiple
Appropriations subcommittees	Multiple
Primary agencies	Multiple
Accounts	Multiple
Spending type	Discretionary/Direct
Budget subfunctions	Multiple

Federal agencies are expected to implement several loan origination, account servicing, collection, and write-off initiatives specified by the Office of Management and Budget (OMB) in its nine-point credit management program.

However, GAO has reported several times that agencies are not adequately screening applicants for delinquent federal debt, and, in some instances, are not using private collection firms in the normal collection process. GAO believes that not using these tools contributes to delinquencies and adversely affects the government's ability to make collectible loans and to collect on outstanding loans. In the fiscal year 1995 budget submission, OMB reported that in fiscal year 1993, lending agencies wrote off about \$2.7 billion of direct loans and terminated for default over \$8.4 billion of guaranteed loans; in fiscal year 1994, OMB estimates that write-offs will be about \$1.3 billion and terminations about \$9 billion.

Although OMB has established a sound credit management program, and both OMB and Treasury provide instruction to agencies on the use of the nine-point credit management program tools, agencies are not legislatively required to do so. GAO believes that agencies' credit management programs would be improved if the Congress required the use of many of these initiatives.

This option could be applied to some or all of the loans and debts of many agencies. Savings would depend on the extent to which agencies adopt appropriate credit management tools.

Related GAO Products

Federal Credit and Insurance Programs: Actions That Could Minimize a Growing Risk (GAO/T-AFMD-92-1, October 24, 1991).

Guaranteed Loan Programs Are an Increasing Risk (GAO/T-AFMD-90-29, September 18, 1990).

Credit Management: Deteriorating Credit Picture Emphasizes Importance of OMB's Nine-Point Program (GAO/AFMD-90-12, April 16, 1990).

GAO Contact Gregory M. Holloway, (202) 512-9507

**Option:
 Administration of the
 Tax Deduction for
 Real Estate Taxes**

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service

IRS audits show that individuals overstated their real estate tax deductions by about \$1.5 billion nationwide in 1988. GAO estimates that this resulted in a nearly \$300 million federal tax loss, which would increase to about \$400 million for 1992. However, this may understate lost revenues because GAO's review also found that IRS auditors detected only about 29 percent of \$127 million in overstated deductions in three locations GAO reviewed. Revenues could be lost not only for the federal government, but also for the 31 states, which in 1991 tied their itemized deductions to those used for federal tax purposes.

Two changes to the reporting of real estate cash rebates and real estate taxes could reduce noncompliance and increase federal tax collections. First, the Congress could require that states report to IRS, and to taxpayers on Form 1099s, cash rebates of real estate taxes. Second, the Congress could require that state and local governments conform real estate tax statements to specifications issued by the IRS that would separate real estate taxes from non-deductible fees, which are often combined on these statements. For estimation purposes, the first proposal would be effective for rebates issued after December 31, 1994; the second proposal would be effective for amounts reported on tax bills after December 31, 1995.

Five-Year Revenues

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Revenue gain	•	7	139	146	153

Source: Joint Committee on Taxation.

Related GAO Product

Tax Administration: Overstated Real Estate Tax Deductions Need To Be Reduced (GAO/GGD-93-43, January 19, 1993).

GAO Contact Jennie S. Stathis, (202) 512-5407

**Option:
Information Reporting
on Forgiven Debts**

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service

The Internal Revenue Code requires taxpayers to report forgiven debts as income except under certain circumstances. GAO reviewed taxpayer compliance in reporting the Federal Deposit Insurance Corporation's (FDIC) and Resolution Trust Corporation's (RTC) forgiven debt with and without information reporting by these corporations to IRS.

Information reporting increased taxpayer compliance. For example, without information reporting, 1 percent of taxpayers voluntarily reported FDIC forgiven debts. With reporting, 48 percent voluntarily reported their forgiven debts. With the information reports, IRS was able to detect that another 20 percent had failed to report their forgiven debts, yielding 68 percent of taxpayers eventually complying.

In 1993, the Congress required information reporting on forgiven debts by FDIC, RTC, the National Credit Union Administration, credit unions, certain banks, and federal agencies. The Congress could consider extending the requirement to other lending institutions, such as non-bank credit card issuers. The Joint Committee on Taxation agrees that this option has the potential for increased revenue and has developed estimates of revenue gains in the past. Updates are currently under development and were not available at time of publication.

Related GAO Product

Tax Administration: Information Returns Can Improve Reporting of Forgiven Debts (GAO/GGD-93-42, February 17, 1993).

GAO Contact Jennie S. Stathis, (202) 512-5407

**Option:
Corporate Tax
Document Matching**

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service

IRS data show that corporate compliance with tax laws has declined to an alarming degree. IRS' document matching program for payments to individuals has proven to be a highly cost-effective way of bringing in billions of dollars in tax revenues to the Treasury while at the same time boosting voluntary compliance. However, unlike payments to individuals, the law does not require that information returns be submitted on most payments to corporations.

Generally using IRS' assumptions, GAO estimated the benefits and costs for a corporate document matching program that would cover interest, dividends, rents, royalties, and capital gains. Assuming that a corporate document matching program began in 1993, GAO estimated that for years 1995-1999, IRS' annual costs would be about \$70 million and annual increased revenues about \$1 billion. This estimate did not factor in compliance costs and changes in taxpayer behavior. Given continuing deficits, increased corporate noncompliance, and declining audit coverage, the Congress may wish to require a corporate document matching program.

A previous estimate by the Joint Committee on Taxation has shown that this option has revenue potential. Updates are currently under development and were not available at time of publication.

Related GAO Product

Tax Administration: Benefits of a Corporate Document Matching Program Exceed the Costs (GAO/GGD-91-118, September 27, 1991).

GAO Contact Jennie S. Stathis, (202) 512-5407

**Option:
Federal Agency
Reporting to the
Internal Revenue
Service**

Authorizing committees	Governmental Affairs (Senate) Finance (Senate) Government Operations (House) Ways and Means (House)
Primary agency	Internal Revenue Service

According to IRS data, corporate tax compliance decreased by 20 percentage points between 1980 and 1987. Information returns—reports provided to IRS by payers of interest, dividends, or other tax-related information—have proven to be highly cost-effective in generating billions of tax dollars from individual taxpayers. However, no such program exists for payments to corporations. IRS matches information return data to individuals' tax returns, which induces individuals to voluntarily report income and helps to identify those who do not. Similar results could be obtained from corporations.

Federal agencies could help increase corporate tax compliance by reporting their payments to corporations for services. Federal agencies paid corporations about \$61 billion for service contracts of more than \$25,000 in 1990.

The Joint Committee on Taxation has not developed estimates of revenue gains for this proposal.

Related GAO Product

Tax Administration: Federal Agencies Should Report Service Payments Made to Corporations (GAO/GGD-92-130, September 22, 1992).

GAO Contact Jennie S. Stathis, (202) 512-5407

**Option:
Independent
Contractor Tax
Compliance**

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service

Common law rules for classifying workers as employees or independent contractors are unclear and subject to conflicting interpretations. While recognizing this ambiguity, IRS enforces tax laws and rules through employment tax examinations. Since 1989, 90 percent of these examinations have found misclassified workers. From October 1987 through December 1991, the average IRS tax assessment relating to misclassified workers was \$68,000.

Establishing clear rules is difficult. Nevertheless, taxpayers need—and government is obligated to provide—clear rules for classifying workers if businesses are to voluntarily comply. In addition, improved tax compliance could be gained by requiring businesses to (1) withhold taxes from payments to independent contractors and/or (2) file information returns with IRS on payments made to independent contractors constituted as corporations. Both approaches have proven to be effective in promoting individual tax compliance.

During 1993, the Congress considered an information reporting requirement related to noncompliance by independent contractors constituted as corporations. The proposal—the service industry noncompliance initiative or SINC—would have required some businesses to provide information reports on their payments to some corporations for services. Thus, to the extent independent contractors were incorporated, payments to them would have been reported. A previous estimate by the Joint Committee on Taxation showed that this proposal increased revenue by about \$400 million over five years. In contrast, the Department of the Treasury's Office of Tax Analysis estimated a 5-year gain of about \$5 billion. A current Joint Committee on Taxation estimate was not available at time of publication.

Related GAO Product

Tax Administration: Approaches for Improving Independent Contractor Compliance (GAO/GGD-92-108, July 23, 1992).

GAO Contact Jennie S. Stathis, (202) 512-5407

Option: Computing Excise Tax Bases

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service

Federal excise taxes are sometimes set at a fixed dollar amount per unit of taxed good. For example, alcoholic beverages are taxed at a set rate per gallon or barrel, with the rate varying for different types of beverages and differing concentrations of alcohol. When set in this manner, the real dollar value of the tax falls with inflation.

The real dollar value of these taxes can be maintained over time if the tax is indexed for inflation or set as a percentage of the price of the taxed product or service. Tax policy issues would need to be considered and administrative difficulties may be encountered, but they are not insurmountable. Of the five excise taxes GAO studied in 1989, alcohol and tobacco taxes yielded over 99 percent of the increased revenue that indexing would have generated. The Congress may wish to consider indexing excise tax rates for inflation.

Five-Year Revenues

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Revenue gain	300	600	1,000	1,300	1,600

Source: Congressional Budget Office, Reducing the Deficit, March 1994.

Related GAO Products

Alcohol Excise Taxes: Simplifying Rates Can Enhance Economic and Administrative Efficiency (GAO/GGD-90-123, September 27, 1990).

Tax Policy: Revenue Potential of Restoring Excise Taxes to Past Levels (GAO/GGD-89-52, May 9, 1989).

GAO Contact Jennie S. Stathis, (202) 512-5407

**Option:
Collecting Gasoline
Excise Taxes**

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service

Although reliable statistical data does not exist to estimate gasoline excise tax evasion, the Department of Transportation estimated in a report to the Congress that such evasion amounted to about \$500 million annually. From a tax administration perspective, moving the collection point for gasoline excise taxes from the terminal to the refinery level may reduce tax evasion, because (1) gasoline would change hands fewer times before taxation, (2) refiners are presumed to be more financially sound and have better records than other parties in the distribution system, and (3) fewer taxpayers would be involved. However, industry representatives raise competitiveness and cost-efficiency questions associated with moving the collection point.

In a May 1992 report, GAO suggested that the Congress explore the level of gasoline excise tax evasion and, if it was found to be sufficiently high, move tax collection to the point at which gasoline leaves the refinery. The amount of revenue that would be generated from moving the collection point for gasoline excise taxes would depend on the accuracy of the \$500 million estimate of evasion and how well the move curbed such evasion.

The Joint Committee on Taxation agrees that this option has the potential for increased revenue but has not developed estimates of revenue gains.

Related GAO Product

Tax Administration: Status of Efforts to Curb Motor Fuel Tax Evasion
(GAO/GGD-92-67, May 12, 1992).

GAO Contact Jennie S. Stathis, (202) 512-5407

**Option:
 Pollution Fees and
 Taxes**

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Environmental Protection Agency

User fees, cost reimbursement mechanisms and pollution taxes could help defray the costs of administering environmental protection programs, encourage pollution prevention and generate significant revenue. Taxes on emissions of pollutants, and on the harmful substances themselves, could supplement regulatory efforts to meet the objectives of existing environmental laws. GAO has identified several specific areas where fees and taxes might be effective, including, but not limited to, (1) requiring states to collect permit fees on industrial and municipal dischargers to surface waters and (2) establishing a pollution tax on dischargers, based on volume, toxicity, or both.

Based on our work, an example of a pollution fee which the Congress may wish to consider is an excise tax on toxic water pollutants. Savings below illustrate a tax on pollution discharges whose rate increases with the toxicity of the discharge. Rates range from \$0.65 per pound for the least toxic pollutant to \$63.40 per pound for the most toxic pollutant.

Five-Year Revenues

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Revenue gain	2,500	3,600	3,600	3,600	3,600

Source: Congressional Budget Office, Reducing the Deficit, March 1994.

Related GAO Products

Environmental Protection: Implications of Using Pollution Taxes to Supplement Regulation (GAO/RCED-93-13, February 17, 1993).

Hazardous Waste: Much Work Remains to Accelerate Facility Cleanups (GAO/RCED-93-15, January 19, 1993).

Drinking Water: Widening Gap Between Needs and Available Resources Threatens Vital EPA Program (GAO/RCED-92-184, July 6, 1992).

Water Pollution: Stronger Efforts Needed by EPA to Control Toxic Water Pollution (GAO/RCED-91-154, July 19, 1991).

GAO Contact Peter Guerrero, (202) 512-6506

**Option:
 Federal Timber Sales**

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture House)
Appropriation subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (House)
Primary agency	Department of Agriculture
Account	National Forest System (12-1106)
Spending type	Discretionary/Direct
Budget subfunction	Conservation and land management

USDA's Forest Service does not always recover its costs on sales of timber, resulting in below-cost sales. Currently, the Service receives most of its operating funds from receipts from timber sales and from appropriated funds linked to primarily timber management and harvest. Thus, in every national forest, even in those where timber harvesting is uneconomic and other activities and uses are more valuable, forest managers are overwhelmingly dependent on timber sales for funding.

The Congress may wish to cease all below-cost federal timber sales. For example, all future timber sales could be eliminated in three of the Forest Service's nine regions where, on average over the last decade, cash expenditures have exceeded cash receipts by a 3-to-1 ratio. This action would eliminate timber sale receipts but would also reduce Forest Service outlays for timber management, reforestation, construction of logging roads, and other program costs. Net savings in federal outlays are shown in the following table.

Five-Year Savings

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Budget authority	20	40	50	65	80
Outlays	15	35	50	60	75

Source: Congressional Budget Office, Reducing the Deficit, March 1994.

Related GAO Products

Natural Resources Management Issues (GAO/OCG-93-17TR, December 1992).

Comments on Below-Cost Timber Bills (GAO/RCED-92-160R, April 1, 1992).

Forest Service Needs to Improve Efforts to Reduce Below-Cost Timber Sales (GAO/T-RCED-91-43, April 25, 1991).

Forest Service Needs to Improve Efforts to Protect the Government's Financial Interest and Reduce Below-Cost Timber Sales (GAO/T-RCED-91-42, April 24, 1991).

GAO Contact James Duffus, III, (202) 512-7756

**Option:
 Hardrock Mining
 Royalties**

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Energy and Natural Resources (Senate) Agriculture (House) Natural Resources (House)
Primary agencies	Department of the Interior Department of Agriculture

The government receives no financial compensation for hardrock minerals extracted from federal lands. In 1990, hardrock minerals worth at least \$1.2 billion were extracted from federal lands, while known, economically recoverable reserves of hardrock minerals remaining on federal lands were valued at \$64.9 billion.

The Congress may wish to consider receiving financial compensation for hardrock minerals extracted from federal lands. The administration's fiscal year 1995 budget assumes fee levels and reforms consistent with H.R. 322, the House-passed version of hardrock mining law reform. This bill would charge an 8-percent royalty on gross profits on existing and future claims.

Five-Year Revenues

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Revenue gain	•	70	70	70	70

Source: Congressional Budget Office, Reducing the Deficit, March 1994.

Related GAO Products

Mineral Royalties: Royalties in the Western States and in Major Mineral-Producing Countries (GAO/RCED-93-109, March 29, 1993).

Natural Resources Management Issues (GAO/OCG-93-17TR, December 1992).

Mineral Resources: Value of Hardrock Minerals Extracted From and Remaining on Federal Lands (GAO/RCED-92-192, August 24, 1992).

GAO Contact James Duffus, III, (202) 512-7756

**Option:
 Grazing Fees on
 Federal Lands**

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Energy and Natural Resources (Senate) Agriculture (House) Natural Resources (House)
Primary agencies	Department of the Interior Department of Agriculture

Grazing fees, which are charged ranchers who graze livestock on public lands, are measured in animal unit months (AUM). The grazing fee is currently set at \$1.98 per AUM. Studies by GAO and others have shown that this fee level does not cover either the government's cost to manage the grazing program or the cost to better manage and improve the condition of the lands so that they will remain a productive public resource in the future. Thus, the fees may represent a subsidy for many of the ranchers who graze livestock on about 268 million acres of public lands.

On August 9, 1993, the Secretaries of Interior and Agriculture issued a draft grazing reform proposal that would establish a fee of \$4.28 per AUM, phased in over 3 years. CBO estimates that this proposal would produce revenues shown below, after deducting the additional receipts that would be paid to states and counties. The administration's fiscal year 1995 budget assumes this increase in fees, but recently the administration proposed a ceiling of \$3.96 per AUM.

Five-Year Revenues

	FY95	FY96	FY97	FY98	FY99
Revenue gain	5	13	18	20	20

Source: Congressional Budget Office.

Related GAO Products

Natural Resources Management Issues (GAO/OCG-93-17TR, December 1992).

Rangeland Management: Interior's Monitoring Has Fallen Short of Agency Requirements (GAO/RCED-92-51, February 24, 1992).

Rangeland Management: BLM's Hot Desert Grazing Program Merits Reconsideration (GAO/RCED-92-12, November 26, 1991).

Rangeland Management: Current Formula Keeps Grazing Fees Low (GAO/RCED-91-185BR, June 11, 1991).

GAO Contact James Duffus, III, (202) 512-7756

**Option:
 Recreation Fees at
 Federal Sites**

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Energy and Natural Resources (Senate) Agriculture (House) Natural Resources (House) Public Works and Transportation (House)
Primary agencies	Department of the Interior Department of Agriculture Department of the Army

Improved pricing of user fees at recreational sites could help defray direct costs to the government, shift the cost burden from the taxpayers to the beneficiaries of the services, and alleviate overcrowding at many sites. Entrance and user fees are charged at some sites, but the fees generally cover only a small portion of the costs for services provided to visitors. For example, in 1993, Interior's National Park Service spent an estimated \$230 million on services for visitors but recovered only an estimated \$90 million in fees. Interior's Office of Inspector General reported that the Service did not collect as much as anticipated because the fees collected were not returned to the individual parks. This led to a lack of incentive, which, together with staffing and funding shortfalls, resulted in the Service's not collecting an estimated \$105 million during fiscal year 1991.

Interior's follow-on report to the Vice President's National Performance Review concluded that reform in the nature, level, and collection of fees in national parks could generate substantial revenues. The administration's fiscal year 1995 budget seeks expanded authority to increase park entrance and other recreation user fees. In addition, this proposal creates a new, mandatory National Park Renewal Fund, which will receive half of the additional revenues, net of fee collection costs, and return them to the collecting parks for direct expenditure in 1996.

The Congress should consider authorizing and requiring federal land-managing agencies to charge fees to cover the costs for services.

Five-Year Revenues

	FY95	FY96	FY97	FY98	FY99
Revenue gain	140	140	140	150	150

Source: Congressional Budget Office, Reducing the Deficit, March 1994.

Related GAO Products

Natural Resources Management Issues (GAO/OCG-93-17TR, December 1992).

Forest Service: Difficult Choices Face the Future of the Recreation Program (GAO/RCED-91-115, April 15, 1991).

GAO Contact James Duffus, III, (202) 512-7756

**Option:
 Nuclear Waste
 Disposal Fees**

Authorizing committees	Energy and Natural Resources (Senate) Energy and Commerce (House) Natural Resources (House)
Primary agency	Department of Energy

Utilities pay a fee to the Nuclear Waste Fund to finance the development of storage and permanent disposal facilities for high-level radioactive wastes. The amount of this fee has not changed since 1983, making the fund susceptible to future budget shortfalls. To help ensure that sufficient revenues are collected to cover increases in cost estimates caused by price inflation, the Congress should amend the Nuclear Waste Policy Act of 1982 to direct the Secretary of Energy to automatically adjust for inflation the nuclear waste disposal fee that utilities pay into the Nuclear Waste Fund.

Five-Year Revenues

Dollars in millions					
	FY95	FY96	FY97	FY98	FY99
Revenue gain	15	35	50	70	85

Source: Congressional Budget Office, Reducing the Deficit, March 1994.

Related GAO Products

Status of Actions to Improve DOE User-Fee Assessments (GAO/RCED-92-165, June 10, 1992).

Changes Needed in DOE User-Fee Assessments (GAO/T-RCED-91-52, May 8, 1991).

Changes Needed in DOE User-Fee Assessments to Avoid Funding Shortfall (GAO/RCED-90-65, June 7, 1990).

GAO Contact Victor S. Rezendes, (202) 512-3841

**Option:
 Natural Resources
 Revenue Sharing**

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Energy and Natural Resources (Senate) Agriculture (House) Natural Resources (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Interior and Related Agencies (Senate and House) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (House)
Primary agencies	Department of the Interior Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Conservation and land management

The federal government collects fees from private interests for the sale or use of natural resources on federal lands. A percentage of these fees is, under certain conditions, allocated to states and counties as an offset for tax revenues not received from the federal lands.

Federal land-managing agencies typically do not deduct the full costs of their programs from the gross receipts that the programs' generate before sharing the receipts with states and counties. Sharing federal receipts on a gross, rather than a net, basis often reduces the federal government's share of the revenues to a level below its costs.

According to CBO, changing revenue-sharing from a gross-receipt to a net-receipt basis would reduce net federal outlays and produce the savings shown below.

Five-Year Savings

	FY95	FY96	FY97	FY98	FY99
Budget authority	170	180	180	190	200
Outlays	130	180	180	190	200

Source: Congressional Budget Office, *Reducing the Deficit*, March 1994.

Related GAO Products

Natural Resources Management Issues (GAO/OCG-93-17TR, December 1992).

Rangeland Management: Current Formula Keeps Grazing Fees Low
(GAO/RCED-91-185BR, June 11, 1991).

Forest Service Needs to Improve Efforts to Reduce Below-Cost Timber Sales (GAO/T-RCED-91-43, April 25, 1991).

Mineral Revenues: Collection and Distribution of Revenues From Acquired Lands (GAO/RCED-90-7, August 2, 1990).

GAO Contact James Duffus, III, (202) 512-7756

**Option:
Federal Land Policies**

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Energy and Natural Resources (Senate) Agriculture (House) Natural Resources (House) Public Works and Transportation (House)
Primary agencies	Department of the Interior Department of Agriculture

The federal government owns and manages more than 700 million acres—nearly one-third of the U.S. landmass. For many years, these lands have been sold or otherwise made available for a variety of purposes to private citizens, corporations, and state and local governments. In many cases, the rate of return received by the government for the sale or use of these valuable natural resources has fallen far below reasonable market-based levels. Three examples illustrate this problem.

The Mining Law of 1872 allows holders of economically minable claims to obtain all rights and interests to both the land and the minerals by patenting them for \$2.50 or \$5.00 an acre—an amount that approximated the fair market value for western grazing land and farmland in 1872. Over the last 122 years, the federal government has sold about 3.2 million acres of public lands, or an area about the size of Connecticut, under this patent provision. As a result, some patent holders have reaped huge profits at the government's expense. At the time of GAO's 1989 study, 265 patent applications were pending for more than 80,000 acres of public land. At just 12 of these sites, if all the land applied for was patented, the government would have received about \$16,000 for land appraised in 1988 at between \$14.4 million and \$47.1 million.

Under land-use agreements with nonfederal public entities, Interior's Bureau of Reclamation has agreed to the long-term use of some of its lands with no compensation to the federal government. The nonfederal public entities, in turn, develop and lease the lands to private commercial operators in exchange for a percentage of their gross revenues. For example, the Bureau agreed that the City of Scottsdale, Arizona, could use for 75 years about 760 acres of its land for recreation development. The city developed two major recreation facilities on the land and subsequently leased them to private commercial operators. The operators of these facilities generated about \$24 million in gross revenues from 1988 through 1990, and the city was entitled to receive about \$1.5 million in compensation. At the time of the GAO review, Bureau officials were unable

to define the extent to which the agency had used these agreements; GAO identified three other similar agreements in Arizona that the Bureau had approved.

The federal government enters into agreements with concessioners to serve as the principal operators of parks, forests, and other recreation areas. In 1991, GAO reported that concessioners generated about \$1.4 billion in gross revenues and paid the government about \$35 million in concession fees—an average return to the government of about 2 percent. Interior's follow-on report to the Vice President's National Performance Review concluded that receipts from concession franchise fees must be actively pursued by the National Park Service, estimating that substantial revenue could be generated by promoting competition, expediting contract renegotiations, and boosting the government's return.

A 5-year estimate of additional receipts cannot be developed at this time. The difficulties of estimating the commercial value of federal holdings, combined with the lack of essential data on those holdings, inhibits estimation.

Related GAO Products

Natural Resources Management Issues (GAO/OCG-93-17TR, December 1992).

Bureau of Reclamation: Federal Interests Not Adequately Protected in Land-Use Agreements (GAO/RCED-91-174, July 11, 1991).

Federal Land Management: The Mining Law of 1872 Needs Revision (GAO/RCED-89-72, March 10, 1989).

GAO Contact James Duffus, III, (202) 512-7756

**Option:
Federal Water Policies**

Authorizing committees	Energy and Natural Resources (Senate) Public Works and Transportation (House)
Primary agency	Department of the Interior

Under the Reclamation Reform Act of 1982, as amended, some farmers have reorganized large farming operations into multiple, smaller landholdings to be eligible to receive additional federally subsidized irrigation water. The act limits to 960 the maximum number of owned or leased acres that individuals or legal entities, such as partnerships or corporations, can irrigate with federal water at rates that exclude interest on the government's investment in the irrigation component of its water resource projects. However, due to the vague definition of the term "farm," the flow of federally subsidized water to land holdings above the 960 acre-limit has not been stopped, and the federal government is not collecting revenues which it is entitled to receive under the act.

By the end of fiscal year 1990, after receiving water from the Central Valley Project (CVP) in California's Central Valley Basin for over 40 years, irrigators had repaid only \$10 million, or 1 percent, of the over \$1 billion in construction costs that they owe the federal government. In 1986, the Congress required irrigators and other users to pay their share of the federal investment in the CVP by 2030. While construction costs may ultimately be recovered by 2030, the dollars that eventually flow to the Treasury could be worth much less than if they had been repaid sooner—as inflation decreases the money's value and as opportunities to use the money for other, productive purposes, such as reducing the federal debt, are lost.

Moreover, the use of federally subsidized water to produce federally subsidized crops results in the government's paying double subsidies. Estimates of the cost of federal water subsidies vary but are substantial. Interior estimated that irrigation subsidies used to produce subsidized crops throughout the 17 western states totaled \$203 million in 1986; the Bureau of Reclamation placed the figure at \$803 million.

CBO has not estimated nationwide revenues and savings for this option. It has estimated cumulative 5-year savings of \$110 million based on (1) requiring that farms of more than 960 acres be charged the full cost of federal irrigation water and (2) allowing those who grow agricultural

commodities that are surplus to receive either crop support payments or federally subsidized water in the CVP, but not both.

Related GAO Products

Natural Resources Management Issues (GAO/OCG-93-17TR, December 1992).

Reclamation Law: Changes Needed Before Water Service Contracts Are Renewed (GAO/RCED-91-175, August 22, 1991).

Water Subsidies: Basic Changes Needed to Avoid Abuse of the 960-Acre Limit (GAO/RCED-89-72, March 10, 1989).

GAO Contact James Duffus, III, (202) 512-7756

**Option:
Internal Revenue
Service Staff
Utilization**

Authorizing committees	Appropriations (Senate and House) Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service

The allocation of IRS' collection staff has not been based on the relative productivity of its collection programs. Some of the more productive programs, such as IRS automatic call sites, have not reached their full potential because staff are assigned to less productive field collection activities. The productivity of collection staff also varies greatly among collection locations.

More emphasis on contacting delinquent taxpayers early using telephone collection techniques and allocating staff based on productivity should increase collections. A rough GAO estimate indicated that the reassignment of about 1,000 staff from field collections—the least productive use of staff—to telephone collections could increase collections by about \$1.2 billion per year.

Although CBO does not disagree that better utilization of IRS staff can increase revenues, it does not make budget estimates of such increases. This is because it is difficult to establish a clear connection between changes in staff allocations and revenue gains. In addition, even if such a connection can be established, the magnitude of such revenue gains attributable to reallocation is not certain enough for budget scorekeeping purposes.

Related GAO Products

Tax Administration: New Delinquent Tax Collection Methods of IRS (GAO/GGD-93-67, May 11, 1993).

Tax Administration: Improved Staffing of IRS' Collection Function Would Increase Productivity (GAO/GGD-93-97, May 5, 1993).

April 21, 1993, letter to the Honorable Steny H. Hoyer, Chairman, Subcommittee on Treasury, Postal Service, and General Government, House Committee on Appropriations.

Internal Revenue Service Receivables (GAO/HR-93-13, December 1992).

Appendix IV
Improve Efficiency

Tax Administration: IRS' System Used in Prioritizing Taxpayer Delinquencies Can Be Improved (GAO/GGD-92-6, March 26, 1992).

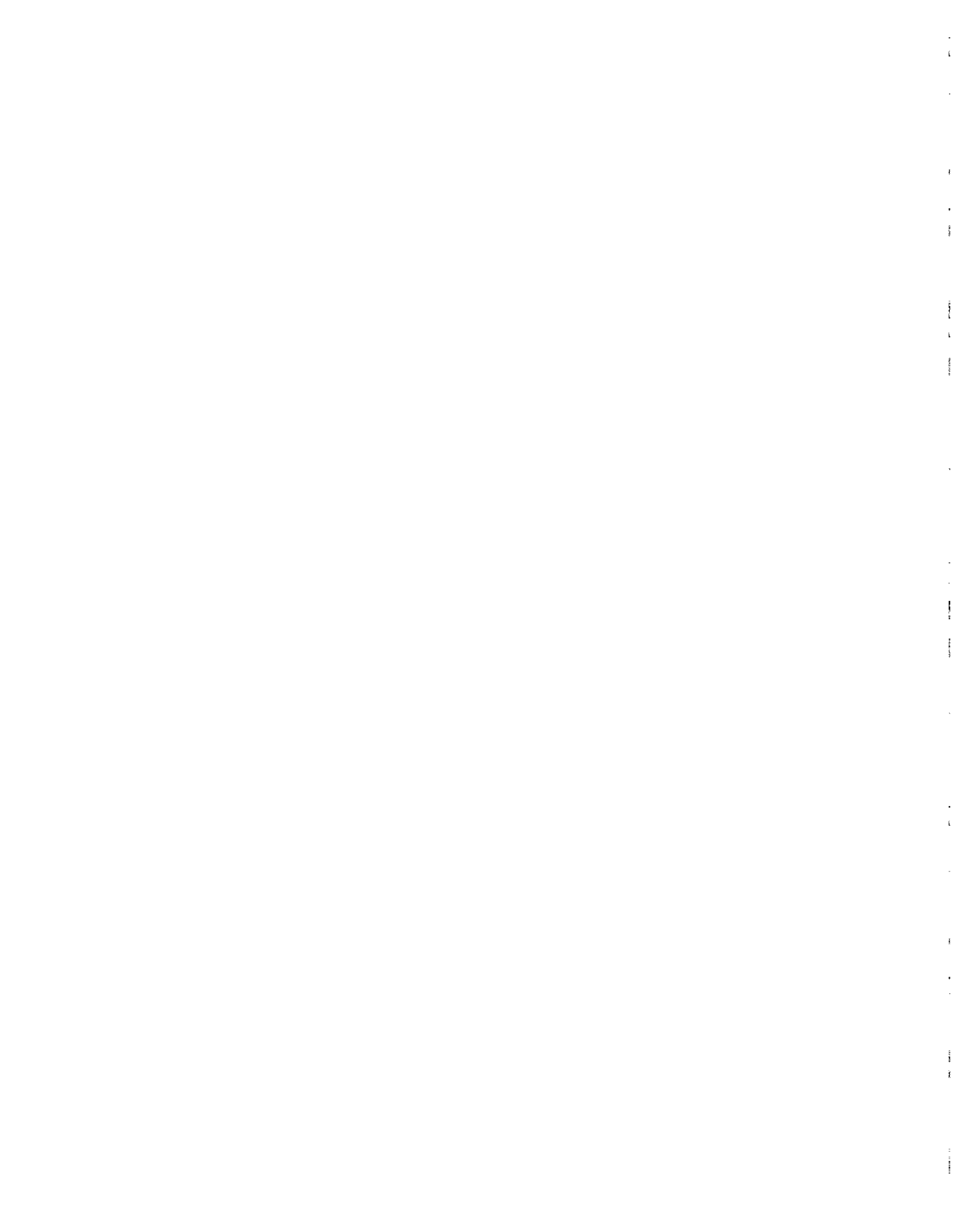
Tax Administration: Efforts to Prevent, Identify, and Collect Employment Tax Delinquencies (GAO/GGD-91-94, August 28, 1991).

GAO Contact Jennie S. Stathis, (202) 512-5407

Major Contributors to This Report

Accounting and
Information
Management Division,
Washington D.C.

Michael J. Curro, Assistant Director
Trina V. Lewis, Evaluator-in-Charge
Laura E. Hamilton, Auditor
Robert M. Sexton, Senior Evaluator



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