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GAO

Report to the Congress

April 2002

SUPPORTING CONGRESSIONAL OVERSIGHT

Budgetary Implications of Selected GAO Work for Fiscal Year 2003

G A O

Accountability ★ Integrity ★ Reliability

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Accountability * Integrity * Reliability

Comptroller General
of the United States

United States General Accounting Office
Washington, D.C. 20548

April 26, 2002

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

This report contains in a single document the budgetary implications of selected program reforms discussed in past GAO work but not yet implemented or enacted. Since 1994, we have prepared annual reports similar to this product. In order to continue to assist congressional budget and appropriations committees in identifying approaches to reduce federal spending or increase revenues, this year's report contains over 100 examples of budget options organized by budget function. Where possible, budgetary savings estimates provided by the Congressional Budget Office (CBO) or the Joint Committee on Taxation (JCT) are presented. The conventions used by CBO and JCT to estimate budgetary savings are described in appendix I.

Following the events of September 11, 2001 and the anticipated return of budget deficits in Fiscal Year 2002, the Congress and the administration face a new set of challenges, both immediate and long term. In the near term, Congress and the administration are faced with the challenge of combating terrorism and ensuring the security of our homeland. In the long term, the nation faces immense fiscal and economic pressures created by known demographic trends and rising health care costs. Both new commitments undertaken after September 11 and longer-term pressures sharpen the need to look at competing claims and new priorities. As we have noted in recent testimonies,[1] a fundamental review of existing programs and activities is necessary both to increase fiscal flexibility and adapt government programs and activities to the 21st Century. This report provides specific options that Congress may wish to consider as it reexamines current federal programs. These budget options are based on past GAO work, and have not yet been addressed by any federal agency or Congress. While this report is not intended to represent a complete summary of possible options, it does provide specific examples that demonstrate the programmatic and fiscal oversight needed as we reassess our nations priorities in light of our short and long-term challenges.

[1]*Budget Issues: Long-Term Fiscal Challenges* (GAO-02-467T, February 27, 2002) and *Homeland Security: Challenges and Strategies in Addressing Short- and Long-Term National Needs* (GAO-02-160T, November 7, 2001).

To assist the Congress in its oversight capacity, we have developed an oversight framework that is intended to allow the Congress to systematically address the goals, scope and approaches for delivering these on-going programs. Specifically, the options in this report fall under one of the following three areas that constitute one potential framework for congressional oversight:

- Reassess objectives: Options for reconsidering whether to terminate or revise services and programs because goals have been achieved, have been persistently not met, or are no longer relevant due to changing conditions.

- Redefine beneficiaries: Options for revising formulas or eligibility rules or improved targeting of benefits or fees.

- Improve efficiency: Options to address program execution problems through consolidation, reorganization, improving collections methods, or attacking high-risk activities.

The specific options described in each example are not intended to suggest the only way to address some of the significant problems identified in our reviews of federal programs and activities. Each example presents only one of many possible options available to the Congress, and including a specific option in this report does not mean that we endorse it or that the chosen option is the only or the most feasible approach.

Lastly, Appendix IV lists options from our March 2001 report[2] that are not included in this report. These options were not updated either because (1) the option was fully or substantially acted upon by the Congress or the cognizant agency, (2) the option was no longer relevant due to environmental changes or the recency of our work, or (3) the Congress or the cognizant agency chose a different approach to address the issues discussed in the option. We will continue to monitor many of these areas to assess whether underlying issues are ultimately resolved based on the actions taken.

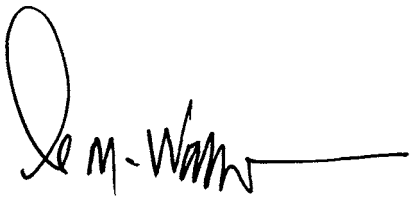
Each example in this report includes a listing of relevant GAO reports and testimonies and a GAO contact. Although we derived the examples in this

[2]*Supporting Congressional Oversight: Framework for Considering the Budgetary Implications of Selected GAO Work* (GAO-01-447, Mar. 9, 2001).

report from our existing body of work, there are similarities between the specific options presented in this report and other proposals. For example, some options contained in this report have also been included in CBO's annual spending and revenue options publication,[3] House and Senate Budget Resolution proposals, and the President's annual budget submission.

We are sending copies of this report to the chairmen and ranking minority members of the Senate Committee on Appropriations and relevant subcommittees, the Senate Committee on the Budget, the Senate Committee on Governmental Affairs, the Senate Committee on Finance, the House Committee on Appropriations and relevant subcommittees, the House Committee on the Budget, the House Committee on Government Reform, and the House Committee on Ways and Means. Copies will be made available to others upon request.

This report was prepared under the direction of Paul L. Posner, managing director, Federal Budget Analysis, Strategic Issues, who may be reached at (202) 512-9573. Specific questions about individual options may be directed to the GAO contact listed with each option. Major contributors to this report are listed in appendix V.



David M. Walker
Comptroller General
of the United States

[3]Congressional Budget Office, *Budget Options* (Feb. 2001).

Explanation of Conventions Used to Estimate Savings and Revenue Gains

CBO and JCT provided cost estimates for many of our options. As in our March 2001 report, a brief explanation is included with the option if specific estimates could not be provided. Where estimates are provided, the following conventions were followed.[4]

- For revenue estimates, the increase in collections reflects what would occur, over and above amounts 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 show savings compared to the fiscal year 2001 appropriations adjusted for inflation. Savings for most defense options are estimated relative to DOD's planned program levels.
- Specific assumptions made in estimating individual options are noted in the option narratives in appendix III.

Subsequent savings and revenue estimates provided by CBO and JCT may not match exactly those contained in this report. Differences in details of specific proposals, changes in assumptions which underlie the analyses, and updated baselines can all lead to significant differences in estimates. Also, a few of our options—involving the sale of real estate and other government-owned property—constitute asset sales. Under the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, proceeds from an asset sale may be counted only if the sale entails no net financial cost to the government. We have included those options that constitute asset sales whether or not they meet that test.

Finally, some of the options could not be scored by CBO or JCT. Several of these involve management improvements that we believe can contribute to reduced spending or increased revenues but whose effects are too uncertain to be estimated. A few options are not estimated because they concern future choices about spending that are not currently in the

[4]For a complete discussion of the uses and caveats of the CBO estimates, see CBO's report, *Budget Options* (March 2000).

baseline used to calculate annual spending and revenue. In other cases, savings are likely to come in years beyond the 10-year estimation period that CBO uses.

A Framework for Considering Cost Savings and Revenue Increases

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

Our framework consists of three broad themes: 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 framework theme focuses on the objectives of federal programs or services. These options offer opportunities to periodically reconsider a program's original purpose, the conditions under which it continues to operate, and whether its cost effectiveness is appropriate. Our work suggests three decision rules that illustrate this strategy.

- Programs can be considered for termination if they have succeeded in accomplishing their intended objectives or if it is determined that the programs have persistently failed to accomplish their objectives.
- Programs can be considered for termination or revision when underlying conditions change so that the original objectives may no longer be valid.
- Programs can be reexamined when cost estimates increase significantly above those associated with original objectives, when benefits fall substantially below original expectations, or both.

For example, the Comanche helicopter is intended to replace the Vietnam-era scout and attack helicopters that the army considers incapable of meeting its existing or future requirements. However, real and probable development cost increases, uncertain operating and support cost savings, questions about the role of the Comanche compared to other more affordable army helicopters, deferral of the production decision, and current defense budgets raise questions about the cost/benefits of this program.

Figure 1: Reassess Objectives (Budget Function)

- Reduce the Number of Carrier Battle Group Expansions and Upgrades (050)
- Limit Commitment to Production of the F-22 Fighter Until Testing is Complete (050)
- Delay the Army's Comanche Helicopter Program's Low-Rate Initial Production (050)
- Reassess the Army's Crusader Program (050)
- Reassess the Need for the Selective Service System (050)
- Delay Production of Space-Based Infrared System-low Satellite System Until Testing is Complete (050)
- Eliminate U.S. Contributions to Administrative Costs in Rogue States (150)
- Continue Oversight of the International Space Station and Related Support Systems (250)
- Corporatize or Divest Selected Power Marketing Administrations (270)
- Terminate Land-Exchange Programs (300)
- Defer Fish and Wildlife Service's Acquisition of New Lands (300)
- Deny Additional Funding for Commercial Fisheries Buyback Programs (300)
- Terminate or Significantly Reduce the Department of Agriculture's Market Access Program (350)
- Eliminate the Pulsed Fast Neutron Analysis Inspection System (400)
- Restructure Amtrak to Reduce or Eliminate Federal Subsidies (400)
- Eliminate Cargo Preference Laws to Reduce Federal Transportation Costs (400)
- Consolidate or Terminate the Department of Commerce's Trade Adjustment Assistance for Firms Program (450)
- Improve Fairness of Medicaid Matching Formula (550)
- Reassess Medicare Incentive Payments in Health Care Shortage Areas (570)
- Develop Comprehensive Return-to-Work Strategies for People With Disabilities (600)
- Revise Benefit Payments Under the Federal Employees' Compensation Act (600)
- Increase Congressional Oversight of PBGC's Budget (600)
- Revise VA's Disability Ratings Schedule to Better Reflect Veterans' Economic Losses (700)
- Tax Interest Earned on Life Insurance Policies and Deferred Annuities (Receipt)
- Further Limit the Deductibility of Home Equity Loan Interest (Receipt)

Redefine Beneficiaries

The second theme within our 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 that 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 to individuals, groups, or industries that directly benefit from federal programs. Also, existing charges can be increased so that the direct beneficiaries share a greater portion of a program's cost.

- Tax preferences can be narrowed or eliminated by revising eligibility criteria or limiting the maximum amount of preference allowable.

For example, 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 fewer needs and greater capacity to absorb cuts. Federal grant formulas could be redesigned to lower federal costs by disproportionately reducing federal funds to states and localities with the strongest tax bases and fewer needs, as shown in our option on formula grants.

Figure 2: Redefine Beneficiaries (Budget Function)

- Recover Power Marketing Administrations' Costs (270)
- Increase Nuclear Waste Disposal Fees (270)
- Recover Federal Investment in Successfully Commercialized Technologies (270)
- Revise the Mining Law of 1872 (300)
- Coordinate Federal Policies for Subsidizing Water for Agriculture and Rural Uses (300)
- Lower the Sugar Program's Loan Rate To Processors (350)
- Recapture Interest on Rural Housing Loans (370)
- Require Self-Financing of Mission Oversight by Fannie Mae and Freddie Mac (370)
- Increase Aircraft Registration Fees to Enable the Federal Aviation Administration to Recover Actual Costs (400)
- Limit Eligibility for Federal Emergency Management Agency Public Assistance (450)
- Eliminate the Flood Insurance Subsidy on Properties That Suffer the Greatest Flood Loss (450)
- Eliminate Flood Insurance for Certain Repeatedly Flooded Properties (450)
- Charge Beneficiaries for Food Inspection Costs (550)
- Implement Risk-Based Meat and Poultry Inspections (550)
- Prevent States from Using Illusory Prevent States from Using Illusory Approaches to Shift Medicaid Program Costs to the Federal Government (550)
- Change Pricing Formula for Medicare-covered Drugs (570)
- Share the Savings From Bond Refundings (600)
- Implement a Service Fee for Successful Non-Temporary Assistance for Needy Families Child Support Enforcement Collections (600)
- Improve Reporting of DOD Reserve Payroll Data to State Unemployment Insurance Programs (600)
- Discontinue Veterans' Disability Compensation for Non-Service Connected Diseases (700)
- Increase Cost Sharing for Veterans' Long-Term Care (700)
- Prevent Delinquent Taxpayers from Benefiting from Federal Programs (800)
- Target Funding Reductions in Formula Grant Programs (800)
- Adjust Federal Grant Matching Requirements (800)
- Repeal the Partial Exemption for Alcohol Fuels from Excise Taxes on Motor Fuels (Receipt)
- Index Excise Tax Bases for Inflation (Receipt)
- Increase Highway User Fees on Heavy Trucks (Receipt)

Improve Efficiency

The third theme within our 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 the following decision rules that illustrate this strategy.

- Reorganizing and consolidating 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.

- Attacking activities at risk of fraud, waste, abuse, and mismanagement.

- 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 the best use of the government's resources.

As an illustration of this theme, the Department of Veterans Affairs (VA) and the Department of Defense (DOD) provide health care services to more than 12 million beneficiaries and operate more than 700 medical facilities at a cost of about $34 billion annually. Over the past two decades, DOD and VA have entered into a sharing program that has yielded benefits in both dollar savings and qualitative gains, illustrating what can be achieved when the two agencies work together to identify where excess capacity and cost advantages exist. However, although VA and DOD continue to share resources to provide quality and cost-effective health care services, existing sharing agreements are not being taken full advantage of and additional sharing opportunities could be pursued. Long-standing barriers along with recent changes in how VA and DOD provide medical care have created confusion about the status of current agreements and present challenges for future collaboration and cost efficiencies. Given the changing health care environment, the criteria and conditions that make resource sharing a cost-effective option for the federal government need to be reviewed and strategies for sharing rethought. VA and DOD need to work together to determine an appropriate course of action to ensure that resource-sharing opportunities are realized, and the Congress may wish to provide specific guidance clarifying the criteria, conditions, and expectations for VA and DOD collaboration.

Figure 3: Improve Efficiency (Budget Function)

- Consolidate Military Exchange Stores (050)
- Assign More Air Force Bombers to Reserve Components (050)
- Reorganize C-130 and KC-135 Reserve Squadrons (050)
- Eliminate Unneeded Naval Materials and Supplies Distribution Points (050)
- Acquire Conventionally Rather than Nuclear-Powered Aircraft Carriers (050)
- Improve the Administration of Defense Health Care (050)
- Seek Additional Opportunities for VA and DOD Medical Sharing to Enhance Services to Beneficiaries and Reduce Costs (050)
- Continue Defense Infrastructure Reform (050)
- Reduce Funding for Renovation and Replacement of Military Housing Until DOD Completes Housing Needs Assessment (050)
- Consolidate the Nuclear Cities Initiative and the Initiatives for Proliferation Prevention Program Into One Effort (050)
- Improve State Department Business Processes (150)
- Streamline U.S. Overseas Presence (150)
- Reduce the Costs of the Rural Utilities Service's Electricity and Telecommunications Loan Programs (270)
- Consolidate or Eliminate Department of Energy Facilities (270)
- Reassess Federal Land Management Agencies Functions and Programs (300)
- Pursue Cost Effective Alternatives to NOAA's Research/Survey Fleet (300)
- Increase Federal Revenues Through Water Transfers (300)
- Consolidate Common Administrative Functions at the Department of Agriculture (350)
- Further Consolidate USDA's County Offices (350)
- Revise the Marketing Assistance Loan Program to Better Reflect Market Conditions (350)
- Reduce FHA's Insurance Coverage (370)
- Merging USDA and HUD Single-Family Insured Lending Programs and Multifamily Portfolio Management Programs (370)
- Consolidate Homeless Assistance Programs (370)
- Improve Department of Transportation's Oversight of its University Research (400)
- Apply Cost-Benefit Analysis to Replacement Plans for Airport Surveillance Radars (400)
- Close, Consolidate, or Privatize Some Coast Guard Operating and Training Facilities (400)
- Convert Some Support Officer Positions to Civilian Status (400)
- Consolidate Student Aid Programs (500)
- Create a Uniform Federal Mechanism for Food Safety (550)
- Convert Public Health Service Commissioned Corps Officers to Civilian Status (550)
- Control Provider Enrollment Fraud in Medicaid (550)
- Adjust Medicare Payment Allowances to Reflect Changing Technology, Costs, and Market Prices (570)
- Increase Medicare Program Safeguard Funding (570)
- Continue to Reduce Excess Payments to Medicare+Choice Health Plans (570)
- Modify the Skilled Nursing Facility Payment Method to Ensure Appropriate Payments (570)
- Implement Risk-sharing in Conjunction with Medicare Home Health Agency Prospective Payment System (570)
- Eliminate Medicare Competitive Sourcing Restrictions (570)
- Improve Social Security Benefit Payment Controls (600)
- Simplify Supplemental Security Income Recipient Living Arrangements (600)
- Reduce Federal Funding Participation Rate for Automated Child Support Enforcement Systems (600)
- Obtain and Share Information on Medical Providers and Middlemen to Reduce Improper Payments to Supplemental Security Income Recipients (600)
- Reassess Unneeded Health Care Assets Within the Department of Veterans Affairs (700)
- Reducing VA Inpatient Food and Laundry Service Costs (700)
- Replace the 1-Dollar Note With the 1-Dollar Coin (800)
- Eliminate Pay Increases After Separation in Calculating Lump-Sum Annual Leave Payments (800)
- Increase Fee Revenue From Federal Reserve Operations (800)
- Recognize the Costs Up-Front of Long-Term Space Acquisitions (800)
- Seek Alternative Ways to Address Federal Building Repair Needs (800)

- Improper Benefit Payments Could be Avoided or More Quickly Detected if Data from Various Programs Were Shared (999)
- Better Target Infrastructure Investments To Meet Mission and Results-Oriented Goals (999)
- Information Sharing Could Improve Accuracy of Workers' Compensation Offset Payments (999)
- Determine Feasibility of Locating Federal Facilities in Rural Areas (999)
- Require Corporate Tax Document Matching (Receipt)
- Improve Administration of the Tax Deduction for Real Estate Taxes (Receipt)
- Increase Collection of Returns Filed by U.S. Citizens Living Abroad (Receipt)
- Increase the Use of Seizure Authority to Collect Delinquent Taxes (Receipt)
- Increase Collection of Self-Employment Taxes (Receipt)
- Increase the Use of Electronic Funds Transfer for Installment Tax Payments (Receipt)
- Reduce Gasoline Excise Tax Evasion (Receipt)
- Improve Independent Contractor Tax Compliance (Receipt)
- Expand the Use of IRS' TIN-Matching Program (Receipt)

Options for Increased Savings and Revenue Gains

050 National Defense

Reduce the Number of Carrier Battle Group Expansions and Upgrades
Limit Commitment to Production of the F-22 Fighter until Operational Testing Is Complete
Delay the Army's Comanche Helicopter Program's Low-Rate Initial Production
Reassess the Army's Crusader Program
Reassess the Need for the Selective Service System
Consolidate Military Exchange Stores
Assign More Air Force Bombers to Reserve Components
Reorganize C-130 and KC-135 Reserve Squadrons
Eliminate Unneeded Department of Navy Distribution Sites
Acquire Conventionally Rather than Nuclear-Powered Aircraft Carriers
Improve the Administration of Defense Health Care
Seek Additional Opportunities for VA and DOD Medical Sharing to Enhance Services to Beneficiaries and Reduce Costs
Continue Defense Infrastructure Reform
Delay Commitment to New Radar Countermeasures System
Reduce Funding for Renovation and Replacement of Military Housing until DOD Completes Housing Needs Assessment
Delay Production of Space-Based Infrared System-Low Satellite System until Testing Is Complete
Consolidate the Nuclear Cities Initiative and the Initiatives for Proliferation Prevention Program into One Effort

Reduce the Number of Carrier Battle Group Expansions and Upgrades

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	051/Department of Defense—Military
Framework theme	Reassess objectives

Aircraft carrier battle groups are the centerpiece of the Navy's surface force and significantly influence the size, composition, and cost of the fleet. The annualized cost to acquire, operate, and support a single navy carrier battle group is about $2 billion (in fiscal year 2000 dollars) and is likely to increase as older units are replaced and modernized. The Navy has several costly ongoing carrier-related programs: two nuclear-powered Nimitz-class carriers are under construction ($9.9 billion); a research and development program ($3.6 billion) for a new nuclear-powered carrier design is underway; the second ship of the 10-ship Nimitz-class began its 3-year refueling complex overhaul in 2001 ($2.5 billion) and subsequent class refuelings will follow about every 3 years; AEGIS destroyers are being procured and the next generation of surface combatants is being designed; and carrier-based aircraft are expected to be replaced/upgraded by a new generation of strike fighters and mission support aircraft throughout the next decade.

Our analysis indicates that there are opportunities to use less costly options to satisfy many of the carrier battle groups' traditional roles without unreasonably increasing the risk that U.S. national security would be threatened. For example, one less costly option would be to rely more on increasingly capable surface combatants and submarines, such as cruisers, destroyers, and Trident SSGNs, for overseas presence and crisis response. If the Congress chose to retire one aircraft carrier, the CVN-70, and one active air wing in 2005, the following savings could be achieved.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from 2002 plan					
Budget authority	300	360	940	1,860	870
Outlays	100	220	710	1,330	1,320

Source: Congressional Budget Office.

Related GAO Products

Navy Aircraft Carriers: Cost-Effectiveness of Conventionally and Nuclear-Powered Carriers (GAO/NSIAD-98-1, Aug. 27, 1998).

Aircraft Acquisition: Affordability of DOD's Investment Strategy (GAO/NSIAD-97-88, Sept. 8, 1997).

Surface Combatants: Navy Faces Challenges Sustaining Its Current Program (GAO/NSIAD-97-57, May 21, 1997).

Cruise Missiles: Proven Capability Should Affect Aircraft and Force Structure Requirements (GAO/NSIAD-95-116, Apr. 20, 1995).

Navy's Aircraft Carrier Program: Investment Strategy Options (GAO/NSIAD-95-17, Jan. 1, 1995).

Navy Carrier Battle Groups: The Structure and Affordability of the Future Force (GAO/NSIAD-93-74, Feb. 25, 1993).

GAO Contact

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Limit Commitment to Production of the F-22 Fighter until Operational Testing Is Complete

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Account	Aircraft Procurement, Air Force (57-3010)
Spending type	Discretionary
Budget subfunction	051/Department of Defense—Military
Framework theme	Reassess objectives

The fiscal year 2001 Defense Appropriations Act provided funds for low-rate initial production of 10 F-22 aircraft, but prohibited award of a fully funded contract until DOD met requirements specified in the Act. In September 2001, DOD declared that it had met the requirements specified in the Act and the Under Secretary of Defense for Acquisition, Technology and Logistics approved award of the contract for 10 aircraft in fiscal year 2001. The fiscal year 2002 Defense Appropriations Act provided funds for low-rate initial production of 13 F-22 aircraft, and DOD plans to procure 23 aircraft in fiscal year 2003, 27 aircraft in fiscal year 2004, 32 aircraft in fiscal year 2005 and begin full-rate production of 40 aircraft in fiscal year 2006.

In several reports over the last 7 years, and as recently as March 2002, GAO concluded that DOD should minimize commitments to F-22 production until completion of Initial Operational Test and Evaluation, now planned for fiscal year 2004. Limiting initial production rates until completion of Initial Operational Test and Evaluation affords the opportunity to confirm the stability and soundness of a new system before committing large amounts of production funding to purchase aircraft. In the past, buying production articles before they can be adequately tested has resulted in buying systems that require modifications to achieve satisfactory performance. Commercial and Department of Defense (DOD) best practices have shown that completing a system's testing prior producing significant quantities will substantially lower the risk of costly fixes and retrofits. Conversely, lower production rates could increase average procurement cost over the life of the program and, if the Air Force maintains its current plan to procure 333 production aircraft, lead to difficulties in completing the production program within the current production cost estimate.

Low-rate initial production of 13 aircraft has been approved by the Congress for fiscal year 2002. To avoid the acceleration of production until completion of Initial Operational Test and Evaluation, low-rate initial production could be maintained at 13 aircraft through 2004. If the Congress were to limit funding to no more than 13 aircraft for fiscal years 2003 and 2004, and then proceed with the planned acceleration of production to 23 aircraft in fiscal year 2005, 27 aircraft in 2006, and 32 aircraft in 2007 the following budget savings could be achieved during the next 5 years.

Five-Year Savings

Dollars in millions

	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 plan					
Budget authority	1,812	2,144	1,200	1,177	1,859
Outlays	451	1,364	1,667	1,415	1,405

Source: Congressional Budget Office.

Related GAO Products

Tactical Aircraft: Continuing Difficulty Keeping F-22 Production Costs Within the Congressional Limitation (GAO-01-782, July 16, 2001).

Tactical Aircraft: F-22 Development and Testing Delays Indicate Need for Limit on Low-Rate Production (GAO-01-310, Mar. 15, 2001).

Defense Acquisitions: Recent F-22 Production Cost Estimates Exceeded Congressional Limitation (GAO/NSIAD-00-178, Aug. 15, 2000).

F-22 Aircraft: Development Cost Goal Achievable If Major Problems Are Avoided (GAO/NSIAD-00-68, Mar. 14, 2000).

Defense Acquisitions: Progress in Meeting F-22 Cost and Schedule Goals (GAO/T-NSIAD-00-58, Dec. 7, 1999).

Fiscal Year 2000 Budget: DOD's Procurement and RDT&E Programs (GAO/NSIAD-99-233R, Sept. 23, 1999).

Defense Acquisitions: Progress of the F-22 and F/A-18E/F Engineering and Manufacturing Development Programs (GAO/T-NSIAD-99-113, Mar. 17, 1999).

F-22 Aircraft: Issues in Achieving Engineering and Manufacturing Development Goals (GAO/NSIAD-99-55, Mar. 15, 1999).

1999 DOD Budget: DOD's Procurement and RDT&E Programs (GAO/NSIAD-98-216R, Aug. 14, 1998).

F-22 Aircraft: Progress of the Engineering and Manufacturing Development Program (GAO/T-NSIAD-98-137, Mar. 25, 1998).

F-22 Aircraft: Progress in Achieving Engineering and Manufacturing Development Goals (GAO/NSIAD-98-67, Mar. 10, 1998).

Aircraft Acquisition: Affordability of DOD's Investment Strategy (GAO/NSIAD-97-88, Sept. 8, 1997).

F-22 Restructuring (GAO/NSIAD-97-100BR, Feb. 28, 1997).

Tactical Aircraft: Concurrency in Development and Production of F-22 Aircraft Should Be Reduced (GAO/NSIAD-95-59, Apr. 19, 1995).

Weapons Acquisition: Low-Rate Initial Production Used to Buy Weapon Systems Prematurely (GAO/NSIAD-95-18, Nov. 21, 1994).

Tactical Aircraft: F-15 Replacement Is Premature As Currently Planned (GAO/NSIAD-94-118, Mar. 25, 1994).

GAO Contact

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Delay the Army's Comanche Helicopter Program's Low-Rate Initial Production

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Account	Aviation Procurement, Army (21-2031)
Spending type	Discretionary
Budget subfunction	051/Department of Defense—Military
Framework theme	Reassess objectives

Since 1983, the Army has been developing its next-generation helicopter, the Comanche, with the intention of significantly expanding the Army's capability to conduct attack and reconnaissance operations in all battlefield environments, day or night and during adverse weather conditions. With a projected total acquisition cost of about $48 billion, Comanche is the Army's largest aviation acquisition program. In June 2000, the Comanche program awarded a 6-year engineering and manufacturing development contract to Boeing-Sikorsky. The program office plans to begin low-rate initial production in June 2005 and full-rate production in December 2006. Current Army plans call for the acquisition of 1,213 Comanches through fiscal years 2026.

The Army is not likely to have the knowledge it should have to begin production when scheduled. Before entering low-rate initial production, our work has shown that successful commercial firms already know that (1) technologies match customer requirements; that is, they can fit onto a product and function as expected, (2) the product's design meets performance requirements, and (3) the product can be produced within cost, schedule, and quality targets. It is unlikely that the Army will have this level of knowledge about Comanche by the June 2005 scheduled low-rate production decision. Further, program office officials acknowledge that there is risk that the December 2006 full-rate production decision date will not be met. In particular, the development and testing schedule has become more compressed with many critical development and test events coming close together or concurrently in the late stages of development. This, in turn, has left the army with very little time to correct deficiencies found during testing. Failure to do so during development could result in costly retrofits and repairs to aircraft already produced. These costs could

be substantial because the Army is planning to buy a significant number of pre production and low-rate production aircraft before design and testing are completed. Finally, the Army continues to face the risk that critical performance requirements may not be met--at least for the helicopters it initially produces. Specifically, the program is at risk of not (1) achieving the "rate-of-vertical-climb" requirement (2) completing development and integration of its mission equipment package, which is needed to support a range of important functions including early warning, target acquisition, piloting, navigation, and communications (3) completing development of the system for detecting equipment problems and (4) achieving the "beyond-line-of-sight" communications capability needed to perform its mission.

In light of the current status and the significant challenges ahead, the potential for undesirable outcomes for the Comanche program—including higher than expected costs, longer than expected schedules, uncertain performance, and affordability concerns—are high. As a result, Congress may wish to consider the benefits of delaying the Comanche's low-rate decision date by 1 year. If the Congress elected to delay the decision date, the following savings would be achieved.

Five-Year Savings

Dollars in millions

	FY03	FY04	FY05	FY06	FY07
Savings from 2002 plan					
Budget authority	0	182	758	263	797
Outlays	0	41	261	465	452

Source: Congressional Budget Office.

Related GAO Products

Defense Acquisitions: Comanche Program Objectives Need to Be Revised to More Achievable Levels (GAO-01-450, June 7, 2001).

Defense Acquisitions: Comanche Program Cost, Schedule, and Performance Status (GAO/NSIAD-99-146, Aug. 24, 1999).

Comanche Helicopter: Testing Needs To Be Completed Prior to Production Decisions (GAO/NSIAD-95-112, May 18, 1995).

GAO Contact

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Reassess the Army's Crusader Program

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Accounts	Research, Development, Test, and Evaluation, Army (21-2040)
Spending type	Discretionary
Budget subfunction	051/Department of Defense-Military
Framework theme	Reassess objectives

According to information presented by the army in August 2000, the Army plans to spend about $9 billion dollars to develop and procure the Crusader self-propelled howitzer and its resupply vehicle as part of a broader program to modernize its armored forces. The system's five key performance requirements call for improved performance over the Paladin—the Army's existing self-propelled howitzer.

The Crusader artillery system has been in development since 1994 and has undergone two major restructures. The first was in 1996 in response to escalating cost and delays due primarily to problems developing a liquid propellant cannon. The second was in January 2000, after the Army Chief of Staff concluded that the Army needed to be able to respond more quickly to contingencies and that the forces of the future needed to be more mobile and quickly deployable, and required a much smaller logistics support structure. To accomplish these goals, the Army is transitioning from large and heavy armored systems to lighter, smaller, more fuel efficient, and more reliable systems with a common chassis--known as Future Combat Systems. These systems are expected to replace the Crusader and other heavy armored systems. After announcing its transformation plans, the Army decided to continue development of the Crusader, but restructured the program to make it more deployable by reducing its size and weight. Even, with the weight reduction, the Crusader is expected to be about 20 tons heavier than the Future Combat Systems and less deployable.

The Army's transition to a lighter and more mobile force will require a substantial investment in new combat vehicles, which is not fully reflected in the army's current outyear spending plans. To fund these new requirements, the army will need to substantially increase funding or to

reduce planned spending on traditional large and heavy armored systems, such as the Crusader, or make other funding tradeoffs. Given the Crusader's high acquisition cost, deployment limitations, plans to replace it with Future Combat Systems, and other transformation funding priorities, the Congress may wish to terminate this program. If the Congress elected to terminate the program, the following savings would be achieved.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from 2002 plan					
Budget authority	474	498	596	931	1,230
Outlays	341	437	478	630	760

Source: Congressional Budget Office.

Related GAO Products

Defense Acquisitions: Steps to Improve the Crusader Program's Investment Decisions (GAO-02-201, Feb. 25, 2002).

Army Armored Systems: Meeting Crusader Requirements Will Be A Technical Challenge (GAO/NSIAD-97-121, June 6, 1997).

Army Armored Systems: Advanced Field Artillery System Experiences Problems With Liquid Propellant (GAO/NSIAD-95-25, Nov. 2, 1994).

GAO Contact

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Reassess the Need for the Selective Service System

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Defense
Accounts	Selective Service System (90-0400)
Spending type	Discretionary
Budget subfunction	054/Defense-related activities
Framework theme	Reassess objectives

No one has been drafted since 1973 and the advent of the all-volunteer force. Since 1980, after the Soviet invasion of Afghanistan, males between the ages of 18 and 26 have continued registering with the Selective Service System for a potential draft in the event of a national emergency. However, it would still require congressional action to actually draft anyone into the military. A return to a military draft seems unlikely even under the current recruiting difficulties the military services are facing. One reason for this is that the recruiting shortfalls represent only a minute percentage of the over 13 million males of draft age and it would be very difficult to ensure a fair and equitable draft to cover such shortfalls. The likelihood of the United States engaging in a manpower-intensive conflict in the future is very remote, so alternative approaches to a draft could be devised to fill personnel needs.

Supporters of continuing registration maintain that it is a relatively inexpensive insurance policy in case the government underestimates the threat level the U.S. military may face in a future contingency. Supporters also contend that registration maintains the link between the military and society-at-large and reinforces the notion that citizenship involves an obligation to the nation. They also maintain that it would ensure a fair and equitable draft should one need to be reinstated in the future. Nevertheless, it was estimated in 1997 that it would take a little more than a year and cost about $23 million (or about 1 year's appropriation) to bring the Selective Service System back from a "deep standby" status. If the Congress chose to terminate the Selective Service System, the following savings could be achieved.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from 2002 funding level					
Budget authority	13	27	28	29	30
Outlays	9	23	27	29	30

Source: Congressional Budget Office.

Related GAO Product

Selective Service: Cost and Implications of Two Alternatives to the Present System (GAO/NSIAD-97-225, Sept. 10, 1997).

GAO Contact

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Consolidate Military Exchange Stores

Authorizing committees	Armed Services (Senate and House)
Appropriation subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	051/Department of Defense—Military
Framework theme	Improve efficiency

Since 1968, studies by GAO, DOD, and others have concluded that financial benefits could be achieved through consolidation of military exchange stores into a single entity. The Office of the Secretary of Defense has proposed the integration of the Army/Air Force Exchange System (AAFES) with the Navy and Marine Corps exchange programs, and a task force commissioned to review this consolidation plan in 1996 concluded that a merger would result in annual recurring savings.

In January 1997, DOD advised its congressional oversight committees that it planned to continue studying options for integrating exchange functions, under the joint direction of the military departments. DOD stated that a more rigorous analysis was needed before judgments could be made on the optimal organizational structure. In April 1998, DOD awarded a contract to study consolidation. The contractor's April 30, 1999, report presented three organizational options: (1) total consolidation, (2) integration of all support functions, such as shipping and receiving, with separate exchange front offices, and (3) maintenance of the status quo with best commercial practices implemented at the exchanges. Based on the contractor's April 1999 report, DOD projected at that time that total consolidation would take 3 to 5 years to complete, require an investment of $391 million over that period (although a one-time savings from the liquidation of excess inventory were expected to offset this investment), and produce 5-year savings of over $1 billion, based on annual recurring savings of about $206 million. However, rather than take action at that time, DOD continued its contracted study efforts through April 2000. At that time, DOD officials decided that rather than pursue consolidation they should initiate a series of cooperative efforts to maximize efficiencies across the exchange services. On July 31, 2000, the services were instructed to submit

implementation plans outlining a formal process with goals and timelines to achieve efficiencies within individual exchange services and collectively through cooperative efforts. The services were also instructed to report progress of their plans annually. To what extent these current efforts can produce savings comparable to those previously projected from consolidating exchange services' operations is uncertain.

Another initiative is the Hybrid initiative, which DOD has been implementing since 1995. These BXMARTS—smaller versions of the larger stores—are operated by the exchanges and often located at bases scheduled for closure. The "hybrid" stores sell both hard goods normally found in a military exchange and the grocery-type goods associated with military commissaries. According to DOD officials, this initiative could result in financial benefits, but DOD has not yet quantified the savings. Currently, four hybrids are operating in the United States. In addition, there are 14 stores located in Europe that are variations of the combined model; commissaries and the exchange service operate these small stores.

In light of the potential savings involved concerning the consolidation of military exchanges, the Congress may wish to direct DOD to consolidate the Navy and Marine Corps exchange operations with the existing Air Force/Army exchange operations. CBO has estimated that consolidating into a single exchange system would yield the following savings.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 baseline					
Budget authority	20	40	60	62	63
Outlays	15	34	53	59	62

Source: Congressional Budget Office.

Related GAO Products

Excess Equipment for Former Castle AFB (BXMART) (GAO/NSIAD-98-94R, Feb. 27, 1998).

Morale, Welfare, and Recreation: Declining Funds Require DOD to Take Action (GAO/NSIAD-94-120, Feb. 28, 1994).

GAO Contact

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Assign More Air Force Bombers to Reserve Components

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Account	Multiple
Spending type	Discretionary
Budget subfunction	051/Department of Defense—Military
Framework theme	Improve efficiency

Bombers currently in the force (B-2s, B-1Bs, and B-52Hs) were initially designed and procured by DOD primarily to meet nuclear war-fighting requirements. Since the end of the Cold War, DOD has placed increased emphasis on the role of bombers in future conventional conflicts while reducing the number of bombers significantly from a total of about 360 in 1989 to 208 bombers in fiscal year 2001. Senior DOD officials have said that DOD cannot afford all of the services' stated requirements, and difficult decisions must be made regarding which investment programs to cancel so that DOD can develop and implement a long-term, sustainable recapitalization plan.

The Air Force has 18 B-1Bs assigned to the Air National Guard--9 to the Kansas Air National Guard and 9 to the Georgia Air National Guard. No B-1Bs are currently assigned to Air Force Reserve units. Placing more B-1Bs in the reserve component (either the Air Force Reserve or the Air National Guard) could reduce the cost to operate the B-1B bomber force without adversely affecting day-to-day peacetime training or critical wartime missions or closing any bases. However, the availability of recruitable personnel in some locations limits where reserve component units can operate.

B-1B reserve component units have training, readiness, and deployment requirements similar to active-duty B-1B units and are considered just as capable of carrying out operational missions as their active duty counterparts. Moreover, the cost to operate a reserve component unit is generally lower than for an active duty unit for several reasons. First, reserve component aircrews are more experienced than their active duty counterparts and require fewer flying hours to meet mission training

requirements. Second, reserve component units employ fewer full-time military personnel than active units. Additionally, because of the part-time manning of traditional reserve component units, there are fewer requirements for permanent and costly base infrastructure--such as family housing and base medical care facilities--necessary to support full-time active duty personnel and their families.

Our analysis shows that the Air Force could select a variety of options if it were to place more B-1Bs in the reserve component. The cost savings would vary depending upon the option selected. If an 18-aircraft aircrew training squadron and 6-aircraft operational squadron were transferred to the reserve component, the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 plan					
Budget authority	0	24	98	177	208
Outlays	0	18	78	152	195

Source: Congressional Budget Office.

Related GAO Products

Air Force Bombers: Moving More B-1s to the Reserves Could Save Millions Without Reducing Mission Capability (GAO/NSIAD-98-64, Feb. 26, 1998).

Air Force Bombers: Options to Retire or Restructure the Force Would Reduce Planned Spending (GAO/NSIAD-96-192, Sept. 30, 1996).

Embedded Computers: B-1B Computers Must Be Upgraded to Support Conventional Requirements (GAO/AIMD-96-28, Feb. 27, 1996).

B-1B Conventional Upgrades (GAO/NSIAD-96-52BR, Dec. 4, 1995).

B-1B Bomber: Evaluation of Air Force Report on B-1B Operational Readiness Assessment (GAO/NSIAD-95-151, July 18, 1995).

Air Force: Assessment of DOD's Report on Plan and Capabilities for Evaluating Heavy Bombers (GAO/NSIAD-94-99, Jan. 10, 1994).

Strategic Bombers: Issues Relating to the B-1B's Availability and Ability to Perform Conventional Missions (GAO/NSIAD-94-81, Jan. 10, 1994).

Strategic Bombers: Adding Conventional Capabilities Will Be Complex, Time-Consuming, and Costly (GAO/NSIAD-93-45, Feb. 5, 1993).

Strategic Bombers: Need to Redefine Requirements for B-1B Defensive Avionics System (GAO/NSIAD-92-272, July 17, 1992).

Strategic Bombers: Updated Status of the B-1B Recovery Program (GAO/NSIAD-91-189, May 9, 1991).

Strategic Bombers: Issues Related to the B-1B Aircraft Program (GAO/T-NSIAD-91-11, Mar. 6, 1991).

GAO Contact

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Reorganize C-130 and KC-135 Reserve Squadrons

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Account	Multiple
Spending type	Discretionary
Budget subfunction	051/Department of Defense—Military
Framework theme	Improve efficiency

Currently, the majority of the Air Force's C-130 and KC-135 aircraft are in the reserve component—that is, assigned to the Air Force Reserve and the Air National Guard. Typically, reserve component wings are organized in one squadron of 8 C-130 aircraft or 10 KC-135 aircraft. However, active Air Force wings flying the same aircraft are generally organized in two to three squadrons of 14 C-130 aircraft or 12 KC-135 aircraft. Given this organizational approach, reserve component C-130 and KC-135 aircraft are widely dispersed throughout the continental United States, Hawaii, and Alaska.

The Air Force could reduce costs and meet peacetime and wartime commitments if it reorganized its reserve component C-130 and KC-135 aircraft into larger squadrons and wings at fewer locations. These savings would primarily result from fewer people being needed to operate these aircraft. For example, redistributing 16 C-130 aircraft from two 8-aircraft reserve wings to one 16-aircraft reserve wing could save about $11 million dollars annually. This reorganization could eliminate about 155 full-time positions and 245 part-time positions; the decrease in full-time positions is especially significant, since the savings associated with these positions represents about $8 million, or 75 percent of the total savings. Fewer people would be needed in areas such as wing headquarters, logistics, operations, and support group staffs as well as maintenance, support, and military police squadrons.

Several alternatives could be developed to redistribute existing reserve component C-130 and KC-135 aircraft into larger squadrons. Sufficient personnel could be recruited for the larger squadrons, and most locations' facilities could be inexpensively expanded to accommodate the unit sizes.

Overall savings will depend on the organizational model selected, but each should produce savings to help make additional funding available for force modernization. The alternative that requires the most reorganizing would increase the squadron size to 16 aircraft for the C-130 and 12 for the KC-135 by redistributing aircraft from 13 C-130 squadrons and 5 KC-135 squadrons to other squadrons. The table below shows the potential savings from this option.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 plan					
Budget authority	100	184	288	375	403
Outlays	91	175	278	367	399

Source: Congressional Budget Office.

Related GAO Product

Air Force Aircraft: Reorganizing Mobility Aircraft Units Could Reduce Costs (GAO/NSIAD-98-55, Jan. 21, 1998).

GAO Contact

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Eliminate Unneeded Naval Materials and Supplies Distribution Points

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Account	Operations and Maintenance, Navy (17-1804)
Spending type	Discretionary
Budget subfunction	050/Department of Defense—Military
Framework theme	Improve efficiency

Our broad-based reviews of various aspects of the Department of the Navy's financial management operations and its ability to meet existing management and reporting requirements[5] have identified numerous deficiencies, some of which can have significant budgetary implications. For example, in 1996 we reported that because of inadequate systems, Navy item managers did not have sufficient visibility over $5.7 billion in operating materials and supplies on ships and at 17 Navy redistribution sites. These 17 sites, which contained almost half of the excess items, were often located in the same general area as other DOD suppliers. Because about $883 million, or 15 percent of this inventory, was excess to current operating allowances or needs, and because the Navy ordered or purchased items that were already on hand in excess quantities, the Navy incurred unnecessary costs of approximately $27 million in the first half of fiscal year 1995.

The Navy could achieve savings by providing item managers with better visibility over these assets and by eliminating redundant or unnecessary redistribution sites. Eliminating the 17 sites would cost about $50 million over 3 years but would reduce associated operating costs by $3 million annually and could reduce redundant supply operations and streamline

[5]The Chief Financial Officers Act of 1990, as amended, requires that each agency chief financial officer (CFO) develop an integrated agency accounting and financial management system that complies with applicable principles and standards and provides for complete, reliable, consistent, and timely information that is responsive to the agency's financial information needs. The act also specifies that each agency CFO should direct, manage, and provide policy guidance and oversight of asset management systems, including inventory management and control.

visibility efforts. Additionally, a significant one-time saving could occur due to the reintroduction of previously unused inventory back into the supply system. An estimate of this one-time saving cannot be performed until a more current study of the supply system is undertaken. However, we estimated in 1996 that this unused inventory may be valued at as much as $445 million.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 funding level					
Budget authority	-18	-16	-15	3	4
Outlays	-5	-13	-14	-9	0

Source: Congressional Budget Office.

Related GAO Products

CFO Act Financial Audits: Programmatic and Budgetary Implications of Navy Financial Data Deficiencies (GAO/AIMD-98-56, Mar. 16, 1998).

High-Risk Series: Defense Financial Management (GAO/HR-97-3, Feb. 1997).

Navy Financial Management: Improved Management of Operating Materials and Supplies Could Yield Significant Savings (GAO/AIMD-96-94, Aug. 16, 1996).

CFO Act Financial Audits: Navy Plant Property Accounting and Reporting Is Unreliable (GAO/AIMD-96-65, July 8, 1996).

Financial Management: Control Weaknesses Increase Risk of Improper Navy Civilian Payroll Payments (GAO/AIMD-95-73, May 8, 1995).

GAO Contact

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Acquire Conventionally Rather than Nuclear-Powered Aircraft Carriers

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	051/Department of Defense—Military
Framework theme	Improve efficiency

Throughout the 1960s and most of the 1970s, the Navy pursued a goal of creating a fleet of nuclear carrier task forces. The centerpiece of these task forces, the nuclear-powered aircraft carrier, would be escorted by nuclear-powered surface combatants and nuclear-powered submarines. In deciding to build nuclear-powered surface combatants, the Navy believed that the greatest benefit would be achieved when all the combatant ships in the task force were nuclear-powered. However, the Navy stopped building nuclear-powered surface combatants after 1975 because of the high cost. The last nuclear-powered surface combatants were decommissioned in the late 1990s because they were not cost effective to operate and maintain.

Our analysis shows that both conventional and nuclear aircraft carriers have been effective in fulfilling U.S. forward presence, crisis response, and war-fighting requirements and share many characteristics and capabilities. Conventionally and nuclear-powered carriers both have the same standard air wing and train to the same mission requirements. Each type of carrier offers certain advantages. For example, conventionally powered carriers spend less time in extended maintenance and, as a result, can provide more forward presence coverage. By the same token, nuclear carriers can store larger quantities of aviation fuel and munitions and, as a result, are less dependent upon at-sea replenishment. There was little difference in the operational effectiveness of nuclear and conventional carriers in the Persian Gulf War.

The United States maintains a continuous presence in the Pacific region by homeporting a conventionally powered carrier in Japan. If the Navy switches to an all-nuclear carrier force, it would need to homeport a nuclear-powered carrier there to maintain the current level of worldwide

overseas presence with a 12-carrier force. Homeporting a nuclear-powered carrier in Japan could prove difficult and costly because of the need for support facilities, infrastructure improvements, and additional personnel. The United States would need a larger carrier force if it wanted to maintain a similar level of presence in the Pacific region with nuclear-powered carriers homeported in the United States. The Navy currently has three conventionally powered and nine nuclear-powered carriers.

The life-cycle costs--investment, operating and support, and inactivation and disposal costs--are greater for nuclear-powered carriers than conventionally powered carriers. Our analysis, based on historical and projected costs, shows that life-cycle costs for conventionally powered and nuclear-powered carriers (for a notional 50-year service life) are estimated at $14.1 billion and $22.2 billion (in fiscal year 1997 dollars), respectively.

In assessing design concepts for the next class of aircraft carriers--and consistent with the Navy's objectives to reduce life-cycle costs by 20 percent--our analysis indicates that national security requirements can be met at less cost with conventionally powered carriers rather than nuclear-powered carriers. If the Congress chose to acquire a conventionally powered carrier in 2006 instead of a nuclear-powered carrier, the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 plan					
Budget authority	330	490	130	430	50
Outlays	20	90	170	220	230

Source: Congressional Budget Office.

Related GAO Products

Navy Aircraft Carriers: Cost-Effectiveness of Conventionally and Nuclear-Powered Carriers (GAO/NSIAD-98-1, Aug. 27, 1998).

Nuclear Waste: Impediments to Completing the Yucca Mountain Repository Project (GAO/RCED-97-30, Jan. 17, 1997).

Defense Infrastructure: Budget Estimates For 1996-2001 Offer Little Savings for Modernization (GAO/NSIAD-96-131, Apr. 4, 1996).

Navy's Aircraft Carrier Program: Investment Strategy Options (GAO/NSIAD-95-17, Jan. 1, 1995).

Navy Carrier Battle Groups: The Structure and Affordability of the Future Force (GAO/NSIAD-93-74, Feb. 25, 1993).

Nuclear-Powered Ships: Accounting for Shipyard Costs and Nuclear Waste Disposal Plans (GAO/NSIAD-92-256, July 1, 1992).

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Improve the Administration of 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	051/Department of Defense—Military
Framework theme	Improve efficiency

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 separate, costly systems perform many of the same administrative, management, and operational functions.

Numerous studies since 1949, with the most recent completed in 2001, 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.

Although CBO agrees that improving the administration of Defense health care has the potential to create savings, it cannot develop a savings estimate until a specific legislative proposal is identified.

Related GAO Products

Defense Health Care: TRICARE Resource Sharing Program Failing to Achieve Expected Savings (GAO/HEHS-97-130, Aug. 22, 1997).

Defense Health Care: Actions Under Way to Address Many TRICARE Contract Change Order Problems (GAO/HEHS-97-141, July 14, 1997).

TRICARE Administrative Prices in the Northwest Region May Be Too High (GAO/HEHS-97-149R, June 24, 1997).

Defense Health Care: New Managed Care Plan Progressing, but Cost and Performance Issues Remain (GAO/HEHS-96-128, June 14, 1996).

Defense Health Care: Despite TRICARE Procurement Improvements, Problems Remain (GAO/HEHS-95-142, Aug. 3, 1995).

Defense Health Care: DOD's Managed Care Program Continues to Face Challenges (GAO/T-HEHS-95-117, Mar. 28, 1995).

Defense Health Care: Issues and Challenges Confronting Military Medicine (GAO/HEHS-95-104, Mar. 22, 1995).

GAO Contact

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Seek Additional Opportunities for VA and DOD Medical Sharing to Enhance Services to Beneficiaries and Reduce Costs

Authorizing committees	Armed Services (Senate and House) Veterans' Affairs (Senate and House)
Appropriations subcommittees	Defense (Senate and House) VA, HUD, and Independent Agencies (Senate and House)
Primary agencies	Department of Defense Department of Veteran's Affairs
Accounts	Defense Health Program (97-0130) Medical Care (36-0160)
Spending type	Discretionary
Budget subfunctions	051/Department of Defense—Military 703/Hospital and Medical Care for Veterans
Framework theme	Improve efficiency

Together, the Department of Veterans Affairs (VA) and the Department of Defense (DOD) provide health care services to more than 12 million beneficiaries and operate more than 700 medical facilities at a cost of about $34 billion annually. To promote more cost-effective use of these health care resources and more efficient delivery of care, in May 1982 the Congress enacted the VA and DOD Health Resources Sharing and Emergency Operations Act (Sharing Act). Specifically, the act authorizes VA medical centers (VAMC) and military treatment facilities (MTF) to become partners and enter into sharing agreements to buy, sell, and barter medical and support services.

Over the past two decades, the sharing program has yielded benefits in both dollar savings and qualitative gains, illustrating what can be achieved when the two agencies work together to identify where excess capacity and cost advantages exist. Although VA and DOD continue to share resources to provide quality and cost-effective health care services, existing sharing agreements are not being taken full advantage of and additional sharing opportunities could be pursued. For example, in fiscal year 1998, 75 percent of direct medical care occurred under just 12 agreements for inpatient care, 19 agreements for outpatient care, and 12 agreements for ancillary care. Most joint venture activity was similarly concentrated at two sites where many hospital services and administrative processes are integrated. In addition, relatively few VA facilities reported that they participate in the national joint disability discharge initiative—an

initiative intended to eliminate duplicative physical examinations that military personnel were required to undergo to be discharged and receive VA disability benefits. VA and DOD continue to be hampered by long-standing barriers, including inconsistent reimbursement and budgeting policies and burdensome agreement approval processes. These long-standing barriers, along with recent changes in how VA and DOD provide medical care, present challenges for future collaboration and cost efficiencies. Although VA and DOD have taken some recent actions to address these barriers and seek more opportunities to maximize resources, challenges still remain.

VA and DOD sharing partners generally believe the sharing program yielded benefits in both dollar savings and qualitative gains, illustrating what can be achieved when the two agencies work together. Although it may be difficult at times to quantify, it seems worthwhile to continue to pursue opportunities to share resources, including such activities as jointly procuring pharmaceuticals and medical and surgical supplies, when clinically appropriate and cost advantages exist. For example, based on our work, VA and DOD have made significant progress in procuring pharmaceuticals—awarding 30 joint contracts by January 2001 estimated to save $70 million. An additional 126 more are planned with possible savings of $100 million. Despite this significant progress, much more potential still exists—particularly where VA and DOD medical facilities are within close proximity of each other—to maximize each system's capacities and result in the most cost effective delivery of care. Other opportunities for increasing sharing—such as DOD's use of VA's consolidated mail outpatient pharmacies, joint procurement of higher-cost brand name drugs, medical and surgical supplies, and equipment—could yield additional significant savings. VA and DOD need to continue to work together to determine an appropriate course of action to ensure that resource-sharing opportunities are realized to the maximum extent possible.

Related GAO Products

DOD and VA Pharmacy: Progress and Remaining Challenges in Jointly Buying and Mailing Out Drugs (GAO-01-588, May 25, 2001).

DOD and VA Health Care: Jointly Buying and Mailing Out Pharmaceuticals Could Save Millions of Dollars (GAO/T-HEHS-00-121, May 25, 2000).

VA and Defense Health Care: Rethinking of Resource Sharing Strategies Is Needed (GAO/T-HEHS-00-117, May 17, 2000).

VA and Defense Health Care: Evolving Systems Require Rethinking of Resource Sharing Strategies (GAO/HEHS-00-52, May 17, 2000).

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Continue Defense Infrastructure Reform

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	051/Department of Defense—Military
Framework theme	Improve efficiency

Although DOD has made significant reductions in defense force structure and military spending since the end of the Cold War, it has not achieved commensurate reductions in infrastructure[6] costs. We previously reported that the proportion of planned infrastructure funding in DOD's budgets would remain relatively constant at about 60 percent through 2005. DOD recognized that it must make better use of its scarce resources and announced a major reform effort—the Defense Reform Initiative (DRI). This effort began almost 4 years ago in November 1997. A major thrust of the DRI was to reduce unneeded infrastructure, primarily through a number of initiatives aimed at substantially streamlining and improving the economy and efficiency of DOD's business operations and support activities. The resulting savings were expected to help DOD modernize its war fighting forces.

While the new administration has not continued the formal DRI program, it has recognized the need to continue reform efforts. Secretary of Defense Rumsfeld announced on June 18, 2001, the creation of two new management committees to recommend ways to improve DOD's business activities and transform the U.S military into a 21st century fighting force. The Senior Executive Committee, which includes the Secretary and Deputy Secretaries of Defense and the Service Secretaries, is expected to meet

[6]DOD defines infrastructure as those activities that provide support services to mission programs, such as combat forces, and primarily operate from fixed locations. They include such program elements as installation support, acquisition infrastructure, central logistics, central training, central medical and central personnel. In fiscal year 2001, approximately $33 billion of infrastructure costs are expected to be related to maintenance and upkeep of facilities across these program elements.

monthly and use its members' unique qualifications as business leaders to recommend changes to DOD's business practices. The second committee, the Business Initiative Council, also includes the service secretaries but is chaired by the Under Secretary of Defense for Acquisition, Technology, and Logistics. Its mission is to recommend good business practices and achieve cost savings that will help pay for other DOD priorities. Although the agendas of these committees are not clear at this time, their members have endorsed several ongoing initiatives that were part of the DRI program (e.g., family housing and utilities privatization) and indicated that they would consider 25 other areas that impact readiness and quality of life. They also emphasized that the committees do not intend to conduct another study. Rather, they will execute those initiatives or ideas that have already been researched and offer opportunities to fundamentally change DOD's business practices and reduce infrastructure costs.

Despite the change in the management structure, a number of old initiatives continue. However, progress in achieving the goals is mixed. For example:

- A major efficiency initiative was to subject over 200,000 government positions to public-private competitions through fiscal year 2005. Since the DRI was announced, this A-76 initiative has been incorporated with the department's strategic sourcing initiative. Strategic sourcing introduces the idea of applying manpower management techniques—such as reengineering, reorganization, and privatization—as a way to improve efficiency and reduce personnel requirements. In March 2001, DOD set new targets for its A-76 and strategic sourcing efforts. The A-76 program is to study 160,000 positions and the strategic sourcing effort is to study 120,000 positions. Although its savings estimates are subject to change, DOD expects the A-76 competitions to save about $9.2 billion by 2005 and $2.8 billion annually thereafter. It expects its strategic sourcing efforts to save $2.5 billion by 2005 and recurring annual savings of $0.7 billion thereafter. We have raised questions about the precision of DOD's estimates and the likelihood that savings will be realized as quickly as DOD projects. Nevertheless, we have noted that these efforts can produce significant savings regardless of whether governmental organizations or private contractors win the competitions.

- DOD has initiated a program to demolish and dispose of over 80 million square feet of excess buildings on military facilities. The military services were each given a demolition goal and expect to meet their goals and complete the program by 2003.

- Closing unneeded research development test and evaluation (RDT&E) facilities has proved to be more difficult. DOD's RDT&E infrastructure consists of 131 facilities that develop and test military technologies. Over the years, DOD has tried to reduce the size of its RDT&E infrastructure and expected to close 62 sites by 2001. In addition, DOD reduced its RTD&E personnel by about 40,000 between fiscal years 1990 and 1997, saving an estimated $2.4 billion annually in personnel costs. Despite these reductions, the RDT&E infrastructure continues to have excess capacity. DOD estimates that excess capacity, in terms of square footage, is between 20 percent and 60 percent, depending on the military service and the method of estimation used. Moreover, DOD has stated that estimated personnel reductions are somewhat inflated because many government employees were replaced by on-site contractor employees who are conducting essentially the same tasks as government employees.

- Privatizing utilities has also proved to be more complicated and costly than anticipated and, consequently, progress has been very limited. The department established the goal of privatizing utility systems on military bases by September 30, 2003. However, as of June 2001, almost 4 years after the goal was established, DOD had privatized only 23 of the approximately 1,700 systems it was considering for privatization. The effort has proven to be more complex, time consuming, and expensive than originally anticipated. Although exact costs are not known, DOD estimates that it could cost hundreds of millions of dollars to complete required feasibility and environmental studies and upgrade the facilities to make them attractive to private investors. Additionally, instead of realizing significant savings, as once envisioned, the program might instead increase costs to the department's operations and maintenance budgets to pay for privatized utility services. By not privatizing, however, DOD faces large capital costs (possibly in the billions) to repair the utility systems and ensure they continue to operate at an acceptable level. DOD sees privatization as a way to use private resources to finance these needed capital repairs and to get out of a business that is clearly not central to its mission.

- Privatizing family housing through private sector financing, ownership, operation, and maintenance has also experienced delays. Since the program began, the department has awarded a small number of contracts. DOD has not implemented a departmentwide standard process for determining housing requirements. DOD and the services have worked to develop the framework for this process, but technical

concerns—such as standards for affordable housing and commuting distance—have stalled its adoption. Also, DOD's life-cycle cost analyses for housing privatization have been incomplete and inaccurate, and have overstated savings. Moreover, increasing military members' housing allowance to secure private sector housing may be a better alternative to more quickly increase the availability of quality housing to military members.

The new administration also continues to emphasize the need for at least one additional base realignment and closure round in 2003 to reduce unneeded infrastructure and free up funds for readiness, weapon modernization, and other needs. DOD projects that additional base closure rounds could produce new savings of $3.4 billion a year once realignment and closure actions are completed and the costs of implementing the actions are offset by savings. While we have previously raised questions about the precision of DOD's savings estimate, our work has nevertheless shown that the department will realize net annual recurring savings once initial investment costs from implementing realignment and closure decisions have been offset.

Undoubtedly, opportunities remain for DOD to reduce its infrastructure costs through additional strategic sourcing, streamlining, consolidating, and possibly privatizing efforts. However, DOD needs a plan and investment strategy to maximize the results of these efforts. In particular, a comprehensive integrated consolidation and downsizing plan that sets goals, identifies specific initiatives, and sets priorities across DOD is needed to guide and sustain reform efforts. Ongoing DRI initiatives from the previous administration as well as initiatives involving the 25 business areas being evaluated by the Business Initiatives Council need to be addressed by the plan. Savings for this option cannot be fully estimated until such a plan is developed.

Related GAO Products

Major Management Challenges and Program Risks, Department of Defense (GAO-01-244, Jan. 2001).

Future Years Defense Program: Risks in Operation and Maintenance and Procurement Programs (GAO-01-33, Oct. 5, 2000).

Defense Infrastructure: Improved Performance Measures Would Enhance Defense Reform Initiative (GAO/NSIAD-99-169, Aug. 4, 1999).

Defense Reform Initiative: Organization, Status and Challenges (GAO/NSIAD-99-87, Apr. 21, 1999).

Defense Reform Initiative: Progress, Opportunities, and Challenges (GAO/T-NSIAD-99-95, Mar. 2, 1999).

Force Structure: A-76 Not Applicable to Air Force 38th Engineering Installation Wing Plan (GAO/NSIAD-99-73, Feb. 26, 1999).

Major Management Challenges and Program Risks: Department of Defense (GAO/OCG-99-4, Jan. 1999).

Army Industrial Facilities: Workforce Requirements and Related Issues Affecting Depots and Arsenals (GAO/NSIAD-99-31, Nov. 30, 1998).

Military Bases: Review of DOD's 1998 Report on Base Realignment and Closure (GAO/NSIAD-99-17, Nov. 13, 1998).

Defense Infrastructure: Challenges Facing DOD in Implementing Reform Initiatives (GAO/T-NSIAD-98-115, Mar. 18, 1998).

Best Practices: Elements Critical to Successfully Reducing Unneeded RDT&E Infrastructure (GAO/NSIAD/RCED-98-23, Jan. 8, 1998).

Future Years Defense Program: DOD's 1998 Plan Has Substantial Risk in Execution (GAO/NSIAD-98-26 Oct. 23, 1997).

1997 Defense Reform Bill: Observations on H.R. 1778 (GAO/T-NSIAD-97-187, June 17, 1997).

Defense Infrastructure: Demolition of Unneeded Buildings Can Help Avoid Operating Costs (GAO/NSIAD-97-125, May 13, 1997).

DOD High-Risk Areas: Eliminating Underlying Causes Will Avoid Billions of Dollars in Waste (GAO/T-NSIAD/AIMD-97-143, May 1, 1997).

Defense Acquisition Organizations: Linking Workforce Reductions With Better Program Outcomes (GAO/T-NSIAD-97-140, Apr. 8, 1997).

Defense Budget: Observations on Infrastructure Activities (GAO/NSIAD-97-127BR, Apr. 4, 1997).

GAO Contact

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Reduce Funding for Renovation and Replacement of Military Housing until DOD Completes Housing Needs Assessment

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	Department of Defense—Military (051)
Framework theme	Improve Efficiency

One of DOD's most pressing problems is its outsized and decaying infrastructure, and this problem is prominent in the family housing program.[7] By DOD's estimates, about two-thirds of military housing is inadequate and would require $16 billion and almost 30 years to renovate or replace using traditional military construction. Efforts to use private contractors to build and operate housing are off to a slow start and may require a long-term (50 years or more) commitment from the government. DOD's policy is to rely on the private sector first for housing, but military members that receive a cash allowance to live in private sector housing must often pay out-of-pocket costs also. These additional costs have been a significant disincentive for living in civilian housing. However, in fiscal year 2001, the Congress authorized an initiative to eliminate the service members' out-of-pocket costs for living in civilian housing by fiscal year 2005. While the full impact of this initiative on military housing requirements is not known, it will provide added incentive for service members to move into civilian housing, thereby reducing the potential need for DOD constructed housing.

Despite efforts to improve the quality and availability of housing for military families, DOD has not implemented a departmentwide standard process for determining military housing requirements. A requirements-setting process that first considers the housing available around installations would likely decrease the amount of needed military housing. Without an accurate requirements-setting process based on the availability

[7]The Fiscal Year 2002 Defense Authorization Act authorized another round of Base Realignment and Closure (BRAC) to be conducted in 2005.

of private sector housing, DOD will continue to have inadequate information with which to make decisions about where it should renovate, build, or seek to privatize military housing. Increasing the housing allowance heightens the urgency for a consistent process to determine military housing requirements because it is expected to increase demand for civilian housing, and lessen the demand for military housing. Considerable evidence suggests that it is less expensive to provide allowances for military personnel to live on the civilian market than to provide military housing. While overall program costs are increasing significantly over the short term to cover increased allowances, DOD could save money in the longer term by encouraging more personnel to move into civilian housing. In the meantime, without an accurate determination of military housing needs, the Department may spend millions of dollars to construct, renovate, or privatize housing that in some locations is unnecessary.

In order to better ensure that DOD's renovation and replacement of military housing is needed, the Congress may wish to reduce spending on noncritical housing construction and renovation until DOD completes a full needs assessment to determine if less expensive alternatives exist in the private market. Such a needs assessment would better enable DOD to target its limited financial resources to where military housing needs are most immediate. CBO cannot estimate the savings for this option until the funds needed for noncritical construction and renovation projects are identified. Although CBO agrees some savings would result from this option, some of those savings would be offset in future years by additional spending for projects that are delayed but ultimately funded.

Related GAO Product

Military Housing: DOD Needs to Address Long-Standing Requirements Determination Problems (GAO-01-889, August 3, 2001).

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Delay Production of Space-Based Infrared System-low Satellite System until Testing Is Complete

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Accounts	Missile Procurement, Air Force (57-3020)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military (051)
Framework theme	Reassess objectives

The Air Force is developing a new satellite system, called Space-Based Infrared System-low (SBIRS-low), to expand DOD's current infrared satellite capabilities for supporting ballistic missile defense. The ability to detect missile launches, track missiles throughout their flights, and counter these threats is essential to ballistic missile defense. The primary mission of SBIRS-low is to track ballistic missiles throughout the middle portion of the flight (midcourse tracking) and discriminate between the warheads and other objects, such as decoys. DOD plans to begin launching SBIRS-low satellites in fiscal year 2006 and estimates the life-cycle cost through fiscal year 2022 to be about $14 billion.

The Air Force's SBIRS-low acquisition schedule is at high risk of not delivering the system on time, at cost, or with expected performance. While the Air Force's previous schedules for SBIRS-low provided for the flight test of crucial satellite functions and capabilities to be available to support the decision to enter satellite production, the current schedule does not provide for completion of such tests until after production has started. If design changes are identified as a result of the test, these changes will have to be incorporated into satellites already under production, and parts that have already been purchased based on the initial design may become obsolete and replaced by new parts, increasing program costs and causing schedule delays.

Testing a small number of SBIRS-low satellites before beginning full-scale production can reduce cost and schedule risks to the government. Consequently, the Congress may wish to require the Air Force to delay production of SBIRS-low satellites until testing of the initial satellites takes place. This testing generally can be expected to take 1 or 2 years to

complete. Since the administration's fiscal year 2003 budget request proposes delaying deployment by 2 years, CBO estimates that the option would have no budgetary impact.[8]

Related GAO Product

Defense Acquisitions: Space Based Infrared System-low at Risk of Missing Initial Deployment Date (GAO-01-6, Feb. 28, 2001).

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[8]CBO estimates savings for some defense-related options relative to DOD's planned program levels.

Consolidate the Nuclear Cities Initiative and the Initiatives for Proliferation Prevention Program into One Effort

Authorizing committees	Energy and Natural Resources (Senate) Energy and Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House)
Primary agency	Department of Energy
Accounts	Defense Nuclear Nonproliferation (89-0309)
Spending type	Discretionary
Budget subfunction	053/Atomic Energy Defense Activities
Framework Theme	Improve efficiency

The Initiatives for Proliferation Prevention (IPP) program was established in 1994 to engage scientists in the former Soviet Union in peaceful commercial activities to reduce the risk that unemployed weapons scientists will sell sensitive information. In late 1998, the administration launched a new program—the Nuclear Cities Initiative (NCI)—to create jobs for displaced weapons scientists in the 10 cities that form the core of Russia's nuclear weapons complex. These programs are implemented through research and development projects involving the Department of Energy's headquarters and national laboratories, U.S. industry, and scientific institutes in the Newly Independent States. A major purpose of these programs is to identify commercial opportunities through these projects to attract investment by U.S. companies.

During its first 2 years, the NCI funded 26 projects that have had limited success in meeting the program's principal objectives—creating jobs for weapons scientists and helping to downsize Russia's weapons complex. Of the roughly $15.9 million in program expenditures through December 2000, about $11.2 million (or 70 percent) had been spent in the United States for Department of Energy and National Laboratories' program-related expenses, with the remainder spent for projects and activities in Russia. These projects, based in Russia, employed about 370 people, including many weapons scientists, working on a part-time basis, who continue to work on Russia's weapons of mass destruction program. About one half of the projects funded by NCI are not designed to create jobs for weapons scientists and instead focus on such activities as the delivery of medical equipment and school exchange programs. Also, the NCI and IPP

programs have similar objectives and both serve Russia's nuclear cities, leading to duplication of effort.

Given the limited impact of NCI projects to date, the large percentage of funds used to pay overhead costs, and the overlap with the IPP program, the Congress may wish to consolidate the two programs into one effort. While CBO agrees that consolidating the two programs could yield administrative and programmatic savings, it cannot develop an estimate until specific proposals are identified.

Related GAO Products

Nuclear Nonproliferation: DOE's Efforts to Assist Weapons Scientists in Russia's Nuclear Cities Face Challenges (GAO-01-429, May 30, 2001).

Nuclear Nonproliferation: DOE's Efforts to Secure Nuclear Material and Employ Weapons Scientists in Russia (GAO-01-726T, May 15, 2001).

Nuclear Nonproliferation: Concerns With DOE's Efforts to Reduce the Risks Posed by Russia's Unemployed Weapons Scientists (GAO/RCED-99-54, Feb. 19, 1999).

GAO Contact

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150 International Affairs

Eliminate U.S. Contributions to Administrative Costs in Rogue States
Improve State Department Business Processes
Streamline U.S. Overseas Presence

Eliminate U.S. Contributions to Administrative Costs in Rogue States

Authorizing committees	Foreign Relations (Senate) International Relations (House)
Appropriations subcommittees	Foreign Operations, Export Financing and Related Programs (Senate and House)
Primary agency	State Department
Account	International Organizations and Programs (72-1005)
Spending type	Discretionary
Budget subfunction	151/International development and humanitarian assistance
Framework theme	Reassess objectives

Organizations of the United Nations system, such as the United Nations Development Program, fund projects in countries that are legislatively prohibited from receiving U.S. funding under section 307 of the Foreign Assistance Act of 1961, as amended. The list of countries varies over time but has included Afghanistan, Burma, Cuba, Iran, Iraq, Libya, Serbia, and Syria. To comply with the legislation, the Department of State withholds from its voluntary contributions to United Nations organizations the U.S. share of funding for projects in these countries.

However, the department does not withhold administrative expenditures associated with the operation of field offices in these countries. Consequently, a portion of the U.S. contribution still goes to states prohibited from receiving U.S. funds. We did not attempt to calculate the total amount that the United States contributes to all United Nations organizations for administrative expenses in rogue states. However, in 1998 GAO estimated that the amount for one United Nations organization, the United Nations Development Program, was about $600,000.

The Department of State has indicated that it would not, as a matter of policy, withhold U.S. contributions to United Nations organizations for administrative expenses in these countries. The department believes the legislative restriction invites politicization and contradicts the principle of universality for participating in United Nations organizations.

Savings may be achieved if the Department of State were to include field office administrative costs when calculating the amount of U.S. withholdings for all United Nations organizations that are subject to section 307 of the Foreign Assistance Act of 1961. Although CBO agrees savings may be achieved, it cannot develop an estimate for this option until a specific proposal is identified.

Related GAO Products

Multilateral Organizations: U.S. Contributions to International Organizations for Fiscal Years 1993-95 (GAO/NSIAD-97-42, May 1, 1997).

International Organizations: U.S. Participation in the United Nations Development Program (GAO/NSIAD-97-8, Apr. 17, 1997).

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Improve State Department Business Processes

Authorizing committees	Foreign Relations (Senate) International Relations (House)
Appropriations subcommittees	Commerce, Justice, State, and the Judiciary (Senate and House)
Primary agency	Department of State
Account	Diplomatic and Consular Programs (19-0113) Salaries and Expenses (19-0107) Security/maintenance of U.S. Missions (19-0535)
Spending type	Discretionary
Budget subfunction	153/Conduct of foreign affairs
Framework theme	Improve efficiency

The Department of State has a number of outmoded and inefficient business processes. For example, one of the problems confronting the department is how to efficiently relocate its employees overseas, find suitable housing abroad, and provide household furniture. Our work suggests that millions of dollars could be saved while providing high-quality services if the department adopted relocation practices used in the private sector--including outsourcing various parts of the transfer process.

The State Department's employee transfer process has remained virtually unchanged for years. Department employees are confronted with a myriad of steps and multiple offices to navigate. The department also separately contracts for each segment of most moves. In addition to incurring annual direct costs of about $36 million to ship household effects, the State Department incurs as much as $1,600 in overhead costs for each move. Moves are typically processed in the State Department's Transportation Division in Washington, D.C.; one of its four regional dispatch agencies; and its European Logistical Support Office. We found that leading companies in the private sector use a number of "best practices" to provide better service and reduce costs. Such practices include having one point of contact for assistance to employees, known as one-stop-shopping, and using commercial, door-to-door shipments to lower the cost of shipping employees' household effects. Private sector firms also generally use one contractor for all segments of the move, minimizing in-house support requirements and reducing total costs.

Another important State Department process is providing overseas housing. The Department of State and other U.S. government agencies operating overseas spend over $200 million annually to lease housing and purchase furniture for employees and their families. This process appears to be more costly than necessary. Our comparison of the State Department's processes with those of key private sector firms operating overseas indicates that if the department adopted private sector practices at a number of posts, it could potentially save the U.S. government substantial amounts of money and still meet its employees' overseas residential housing and furniture needs. Specific practices that can reduce costs include (1) using relocation companies and similar service providers to search for housing and negotiate leases to reduce in-house support costs and shift some property preparation expenses to landlords, (2) providing employees with housing allowances to select their own homes rather than managing and maintaining a housing pool of government leases and pre-assigning residences, and (3) acquiring residential furniture overseas instead of buying and shipping it from the United States. The Overseas Presence Advisory Panel convened by the Secretary of State also suggested that the department explore incentives for greater private sector involvement in managing residential property to improve operational efficiency.

Our cost analysis of the U.S. mission's housing office in Brussels and the housing support function at the U.S. embassy in London illustrate how using a relocation company could potentially yield significant savings at those posts. For example, based on cost data provided by the mission in Brussels, the annual salary cost alone attributable to the short-term leasing process totaled about $700,000 in fiscal year 1996. If property preparation and other support costs are included, the embassy's direct and indirect costs for short-term residential leases exceed $1.5 million annually. In contrast, a relocation company would charge between $207,000 and $277,000 for home-finding services. For London, the support costs for residential leasing totaled about $700,000 annually. Outsourcing home-finding services would cost between $118,000 and $151,000.

While CBO agrees that improving the State Department's business processes could yield savings, it cannot develop an estimate until specific proposals are identified.

Related GAO Products

State Department: Options for Reducing Overseas Housing and Furniture Costs (GAO/NSIAD-98-128, July 31, 1998).

State Department: Using Best Practices to Relocate Employees Could Reduce Costs and Improve Service (GAO/NSIAD-98-19, Oct. 17, 1997).

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Streamline U.S. Overseas Presence

Authorizing Committees	Foreign Relations (Senate) International Relations (House)
Appropriation subcommittees	Commerce, Justice, State and the Judiciary (Senate and House)
Primary agency	Department of State
Account	Diplomatic and Consular Programs (19-0113) Salaries and Expenses (19-0107) Security/maintenance of buildings
Spending type	Discretionary
Budget subfunction	153/Conduct of foreign affairs
Framework theme	Improve efficiency

The Department of State maintains a physical presence in the form of embassies in over 160 countries, usually in the capital city, and consulates general, consulates, and other offices in the capital or other cities. Almost 18,000 U.S. direct-hire employees (over 6,400 from the State Department and 11,200 from other agencies) work overseas at a total of more than 250 diplomatic posts. In addition, U.S. direct-hire staffing levels have increased over the years, most notably in the nonforeign affairs agencies. The U.S. government also employs over 35,000 locally hired and contract staff at its diplomatic posts. U.S. embassies have become bases to at least 27 other U.S. government agencies involved in more than 300 activities.

Security requirements and the increasing costs of diplomacy are directly linked to the size of the overseas work force. Moreover, U.S. foreign policy needs, which have changed dramatically with the end of the cold war, call into question whether the current overseas post and staff structure is appropriate. By reducing the number of Americans at posts where U.S. interests are of lesser importance, consolidating functions, or using regional embassies in certain regions, the State Department could reduce its security requirements and enhance the safety of Americans overseas. In addition to security concerns, the costs of maintaining Americans overseas are high. It costs over $200,000 annually to station an American overseas, which is about two times as much as for Washington-based staff.

For several years, we have been encouraging actions to reevaluate overseas staffing requirements. In 1999, the Secretary of State established

the Overseas Presence Advisory Panel to review how the United States carries out its activities overseas. In November 1999, the panel recommended the formation of an interagency committee to review and streamline every overseas post. Although the panel did not specify the amount of savings that could be achieved through streamlining posts, it expressed the belief that the savings would be substantial. If the Congress chose to reduce overseas staffing by 1 percent, either through domestic reallocation or elimination, the CBO estimates that the following savings could be achieved.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Option: Relocate overseas staffing domestically by 1 percent					
Savings from the 2002 baseline					
Budget authority	4	8	12	16	20
Outlays	3	6	10	14	18

Note: CBO assumes that these direct-hire positions would be relocated gradually or through attrition to minimize costs. This would occur at an even pace over 5 years and, based on information from GAO, savings are estimated at $100,000 per position.

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Option: Eliminate overseas staffing by 1 percent					
Savings from the 2002 baseline					
Budget authority	1	14	21	28	35
Outlays	6	12	19	25	32

Note: CBO assumes that these direct-hire positions would be eliminated through attrition rather than a reduction-in-force, which would involve significant costs. Attrition would occur at an even pace over 5 years and, based on information from GAO, savings are estimated at $200,000 per position eliminated.

Source: Congressional Budget Office.

Related GAO Products

State Department: Major Management Challenges and Program Risks (GAO/T-NSIAD/AIMD-99-99, Mar. 4, 1999).

Foreign Affairs Management: Major Challenges Facing the Department of State (GAO/T-NSIAD-98-251, Sept. 17, 1998).

Overseas Presence: Staffing at U.S. Diplomatic Posts (GAO/NSIAD-95-50FS, Dec. 28, 1994).

State Department: Overseas Staffing Processes Not Linked to Policy Priorities (GAO/NSIAD-94-228, Sept. 20, 1994).

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250 Science, Space, and Technology

Continue Oversight of the International Space Station and Related Support Systems

Continue Oversight of the International Space Station and Related Support Systems

Authorizing committees	Commerce, Science, and Transportation (Senate) Science (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies
Primary agency	National Aeronautics and Space Administration
Account	Multiple
Spending type	Discretionary
Budget subfunction	252/Space flight, research, and supporting activities
Framework theme	Reassess objectives

In December 1998, the National Aeronautics and Space Administration (NASA) accomplished a significant step in its construction of the International Space Station (ISS): coupling the first two elements of the station in orbit. More recently, the first permanent crew boarded the ISS. Notwithstanding these noteworthy achievements, there appears to be no abatement in the number of challenges NASA will face in the years to come. Recent GAO studies have focused on (1) the increasing cost of building the space station, (2) uncertainties regarding costs of operating the space station, and (3) the impact of Russia not meeting its commitments as a partner. Specifically, NASA has estimated that the annual cost to operate the ISS will average $1.3 billion, or $13 billion over a 10-year mission life. However, this estimate does not include all funding requirements, such as (1) costs associated with necessary upgrades to combat component obsolescence, (2) end-of-mission costs to either extend or decommission the ISS, and (3) a variety of supports costs (space shuttle flights, personnel, space communications, etc.) that are currently shown in other portions of NASA's budget. Similarly, Russia's ongoing problems in funding its share of the station's construction costs—problems which delayed delivery of the first major Russian-funded component—have raised questions about its ability to continue to support operations costs during and after assembly. In addition, NASA is facing a potential estimated cost overrun in excess of $4.5 billion for the space station.

ISS will impose significant demands on future budgets that warrant continued congressional oversight. As evidence of continued congressional

concerns, the National Aeronautics and Space Administration Authorization Act of 2000 also requires GAO to verify NASA's accounting of certain cost limitations the act imposes on the ISS and related space shuttle operations. However, other areas would also benefit from congressional oversight. For example, in addition to ongoing NASA efforts to resolve human capital shortfalls in the space shuttle program, activities are now underway to develop a reusable launch vehicle to support space station-related and other activities now being done by the space shuttle. The $4.5 billion Space Launch Initiative in particular is a major NASA program intended to develop the advanced technologies for a reusable launch vehicle needed to achieve those capabilities, and to do so at a significantly lower cost. Overall, continued congressional oversight also helps ensure that NASA's other priorities are not sacrificed to fund ISS operations. Because specific reduction options have not been proposed, CBO is unable to estimate cost savings.

Related GAO Products

Space Shuttle Safety: Update on NASA's Progress in Revitalizing the Shuttle Workforce and Making Safety Upgrades (GAO-01-1122T, Sept. 6, 2001).

NASA: International Space Station and Shuttle Support Cost Limits (GAO-01-1000R, Aug. 31, 2001).

Space Transportation: Critical Areas NASA Needs to Address in Managing Its Reusable Launch Vehicle Program (GAO-01-826T, June 20, 2001).

Space Station: Inadequate Planning and Design Led to Propulsion Module Project Failure (GAO-01-633, June 20, 2001).

Space Shuttle: Human Capital and Safety Upgrade Challenges Require Continued Attention (GAO/NSIAD/GGD-00-186, Aug. 15, 2000).

Space Station: Russian-Built Zarya and Service Module Compliance With Safety Requirements (GAO/NSIAD-00-96R, Apr. 28, 2000).

Space Station: Russian Commitment and Cost Control Problems (GAO/NSIAD-99-175, Aug. 17, 1999).

Space Station: Cost to Operate After Assembly Is Uncertain (GAO/NSIAD-99-177, Aug. 6, 1999).

Space Station: Status of Russian Involvement and Cost Control Efforts (GAO/T-NSIAD-99-117, Apr. 29, 1999).

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270 Energy

Corporatize or Divest Selected Power Marketing Administrations
Recover Power Marketing Administrations' Costs
Increase Nuclear Waste Disposal Fees
Recover Federal Investment in Successfully Commercialized Technologies
Reduce the Costs of the Rural Utilities Service's Electricity and Telecommunications Loan Programs
Consolidate or Eliminate Department of Energy Facilities

Corporatize or Divest Selected Power Marketing Administrations

Authorizing committees	Energy and Natural Resources (Senate) Resources (House)
Primary agency	Department of Energy
Spending type	Direct
Framework theme	Reassess objectives

The federal government began to market electricity after the Congress authorized the construction of dams and established major water projects, primarily in the 1930s to the 1960s. The Department of Energy's (DOE) power marketing administrations (PMAs)—Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration–market primarily wholesale power in 33 states produced at large, multiple-purpose water projects. Our March 1998 report identified options that the Congress and other policymakers can pursue to address concerns about the role of three PMAs—Southeastern, Southwestern, and Western–in emerging restructured markets or to manage them in a more business-like fashion. Our work has demonstrated that, although federal laws and regulations generally require that the PMAs recover the full costs of building, operating, and maintaining the federal power plants and transmission assets, in some cases federal statutes and DOE's rules are ambiguous about or prohibit the recovery of certain costs. For fiscal years 1992 through 1996, the federal government incurred a net cost of $1.5 billion from its involvement in the electricity-related activities of Southeastern, Southwestern, and Western. We also reported that the appropriated and other debt that is recoverable through the PMAs' power sales totaled about $22 billion at the end of fiscal year 1997 and included nearly $2.5 billion in irrigation costs. In addition, our work has demonstrated that the availability of federal power plants to generate electricity has been below that of nonfederal plants because the federal planning and budgeting processes do not always ensure that funds are available to make repairs when needed.

Our March 1998 report outlines three general options to address the federal role in restructuring markets: (1) maintaining the status quo of federal ownership and operation of the power generating projects, (2) maintaining the federal ownership of these assets but improving how they are operated

(an example of which is reorganizing the PMAs to operate as federally owned corporations), and (3) divesting these assets. The third option would eliminate the government's presence in a commercial activity and, depending on a divestiture's terms and conditions and the price obtained, could produce both a net gain and a future stream of tax payments to the Treasury. Corporatization or divestitures of government assets have been accomplished recently in the United States and also overseas, and corporatization could serve as an interim step toward ultimate divestiture. Our March 1997 report concluded that divesting the federal hydropower assets would be complicated but not impossible. Such a transaction would need to balance the multiple purposes of the water project as well as other claims on the water.

CBO estimates that divesting the federal hydropower assets for Southeastern, Southwestern, and Western would result in the savings shown below. The estimate assumes that the divestiture would not occur for 2 years and is based on the net present value of outstanding debt for the Southeastern, Southwestern, and Western PMAs. Terms established in legislation would significantly change the estimate. Although the foregone receipts result in a loss of revenue in 2004 and 2005, it is mitigated by the large receipts from divestiture in 2004 and by the savings in discretionary spending.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Discretionary spending					
Savings from 2002 plan					
Budget authority	0	0	0	200	200
Outlays	0	0	0	100	197

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Direct Spending					
Savings from 2002 funding level					
Budget authority	0	0	-4,900	530	540
Outlays	0	0	-4,900	530	540

Source: Congressional Budget Office.

Related GAO Products

Budget Issues: Effective Oversight and Budget Discipline Are Essential—Even in a Time of Surplus (GAO/T-AIMD-00-73, Feb. 1, 2000).

Potential Candidates for Congressional Oversight (GAO/OGC-00-3R, Nov. 1, 1999).

Federal Power: The Role of the Power Marketing Administrations in a Restructured Electricity Industry (GAO/T-RCED/AIMD-99-229, June 24, 1999).

Federal Power: PMA Rate Impacts by Service Area (GAO/RCED-99-55, Jan. 28, 1999).

Federal Power: Regional Effects of Changes in PMAs' Rates (GAO/RCED-99-15, Nov. 16, 1998).

Power Marketing Administrations: Repayment of Power Costs Needs Closer Monitoring (GAO/AIMD-98-164, June 30, 1998).

Federal Power: Options for Selected Power Marketing Administrations' Role in a Changing Electricity Industry (GAO/RCED-98-43, Mar. 6, 1998).

Federal Electricity Activities: The Federal Government's Net Cost and Potential for Future Losses (GAO/AIMD-97-110 and 110A, Sept. 19, 1997).

Federal Power: Issues Related to the Divestiture of Federal Hydropower Resources (GAO/RCED-97-48, Mar. 31, 1997).

Power Marketing Administrations: Cost Recovery, Financing, and Comparison to Nonfederal Utilities (GAO/AIMD-96-145, Sept. 19, 1996).

Federal Power: Recovery of Federal Investment in Hydropower Facilities in the Pick-Sloan Program (GAO/T-RCED-96-142, May 2, 1996).

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Recover Power Marketing Administrations' Costs

Authorizing committees	Energy and Natural Resources (Senate) Resources (House)
Primary agency	Department of Energy
Spending type	Direct
Framework theme	Redefine beneficiaries

Four of the Department of Energy's (DOE) power marketing administrations (PMA)--Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration--market primarily wholesale power in 33 states produced at large, multiple-purpose water projects. Except for Bonneville, these PMAs receive annual appropriations to cover operating and maintenance (O&M) expenses and, if applicable, the capital investment in transmission assets.[9] Federal law requires the PMAs to repay these appropriations as well as the power-related O&M and the capital appropriations expended by the operating agencies generating the power.

Current monitoring activities do not ensure that the federal government recovers the full cost of its power-related activities from the beneficiaries of federal power. The full cost of the power-related activities—which are to be recovered under current legislation and DOE policy—include all direct and indirect costs incurred by the federal government in producing, transmitting, and marketing federal power. Neither DOE nor the Federal Energy Regulatory Commission, which reviews the PMAs' rate proposals, is effectively monitoring the rate-making process and the amounts due and repayments made to ensure their accuracy, completeness, and timeliness. Unrecovered power-related costs relate to (1) Civil Service Retirement System (CSRS) pensions and postretirement health benefits, (2) life insurance benefits, (3) certain workers' compensation benefits, and (4) interest on some of the federal appropriations used to construct certain projects. The full magnitude of the underrecovery of power-related costs is

[9]In 1974, the Congress stopped providing Bonneville with annual appropriations and instead provided it with a revolving fund maintained by the Treasury; however, Bonneville remains responsible for repaying its debt prior to 1974 and debt stemming from appropriations expended by the operating agencies on power-related expenses.

unknown. Until an effective monitoring system is implemented, the federal government will continue to be exposed to financial loss due to the underrecovery of power-related costs.

The federal government is also incurring other substantial net costs annually—the amount by which the full costs of providing electric power exceed the revenues from the sale of power—from the electricity-related activities of the PMAs. Although the PMAs are generally required to recover all costs, favorable financing terms and the lack of specific requirements to recover certain costs have resulted in net costs to the federal government because these PMAs' electricity rates do not recover all costs that are to be repaid through the sale of power. It is important to note that the PMAs were generally following applicable laws and regulations applying to the recovery of costs; however, in some cases, federal statutes and an applicable DOE order are ambiguous about or prohibit the recovery of certain costs.

In part because the PMAs sell power generated almost exclusively from hydropower, are not required to earn a profit, and do not fully recover the government's costs in their rates, they are generally able to sell power more cheaply than other providers. Southeastern, Southwestern, and Western sold wholesale power to their preference customers, such as public entities and rural cooperatives, from 1990 through 1995, at average rates from 40 to 50 percent below the rates nonfederal utilities charged. If the PMAs were authorized to charge market rates for power in conjunction with federal restructuring legislation, some preference customers who now purchase power from the PMAs at rates that are less than those available from other sources would see their rates increase. However, we have reported that slightly more than two-thirds of the preference customers, which are located in varying portions of 29 states, that purchased power directly from Southeastern, Southwestern, and Western would experience small or no rate increases—increases of one-half cent per kilowatt hour or less—if those PMAs charged market rates.

The Congress and/or the Secretary of Energy may wish to consider directing the PMAs to more fully recover power-related costs or revising DOE's policy on high-interest debt repayment. We have recommended a number of specific actions aimed at enhancing DOE's oversight. For example, changes could be implemented to recover the full costs to the federal government of providing postretirement health benefits and pensions for current employees and operating agency employees engaged in producing and marketing the power sold by the PMAs. We and CBO

agree that several PMAs have begun to address some of these actions. The Congress has the option of requiring the PMAs to sell their power at market rates to better ensure the full recovery of the appropriated and other debt that is recoverable through the PMAs' power sales. This debt totaled about $22 billion at the end of fiscal year 1997 and included nearly $2.5 billion in irrigation costs that are to be recovered through the PMAs' power sales. This option would likely also lead to more efficient management of the taxpayers' assets.

Although CBO agrees that savings would occur if the PMAs were directed to fully recover power-related costs or set their power at market rates, it cannot develop an estimate for this option until a specific proposal is identified.

Related GAO Products

Congressional Oversight: Opportunities to Address Risks, Reduce Costs, and Improve Performance (GAO/T-AIMD-00-96, Feb. 17, 2000).

Federal Power: The Role of the Power Marketing Administrations in a Restructured Electricity Industry (GAO/T-RCED/AIMD-99-229, June 24, 1999).

Federal Power: PMA Rate Impacts, by Service Area (GAO/RCED-99-55, Jan. 28, 1999).

Federal Power: Regional Effects of Changes in PMAs' Rates (GAO/RCED-99-15, Nov. 16, 1998).

Power Marketing Administrations: Repayment of Power Costs Needs Closer Monitoring (GAO/AIMD-98-164, June 30, 1998).

Federal Power: Options for Selected Power Marketing Administrations' Role in a Changing Electricity Industry (GAO/RCED-98-43, Mar. 6, 1998).

Federal Electricity Activities: The Federal Government's Net Cost and Potential for Future Losses (GAO/AIMD-97-110 and 110A, Sept. 19, 1997).

Federal Power: Issues Related to the Divestiture of Federal Hydropower Resources (GAO/RCED-97-48, Mar. 31, 1997).

Power Marketing Administrations: Cost Recovery, Financing, and Comparison to Nonfederal Utilities (GAO/AIMD-96-145, Sept. 19, 1996).

Federal Power: Outages Reduce the Reliability of Hydroelectric Power Plants in the Southeast (GAO/T-RCED-96-180, July 25, 1996).

Federal Power: Recovery of Federal Investment in Hydropower Facilities in the Pick-Sloan Program (GAO/T-RCED-96-142, May 2, 1996).

Federal Electric Power: Operating and Financial Status of DOE's Power Marketing Administrations (GAO/RCED/AIMD-96-9FS, Oct. 13, 1995).

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Increase Nuclear Waste Disposal Fees

Authorizing committees	Energy and Natural Resources (Senate) Commerce (House) Resources (House)
Primary agency	Department of Energy
Spending type	Direct
Framework theme	Redefine beneficiaries

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. If the fee were indexed to inflation, CBO estimates the following additional receipts could be expected.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Added receipts	11	25	40	53	68

Source: Congressional Budget Office.

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).

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Recover Federal Investment in Successfully Commercialized Technologies

Authorizing committees	Energy and Natural Resources (Senate) Science (House) Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House) Interior and Related Agencies (Senate and House)
Primary agency	Department of Energy
Account	Multiple
Spending type	Discretionary
Budget subfunction	Multiple
Framework theme	Redefine beneficiaries

The Department of Energy (DOE) and the private sector are involved in hundreds of cost-shared projects aimed at developing a broad spectrum of cost-effective, energy-efficiency technologies that protect the environment, support the nation's economic competitiveness, and promote the increased use of oil, gas, coal, nuclear, and renewable energy resources. In June 1996, we reported that DOE generally does not require repayment of its investment in technologies that are successfully commercialized. Our review identified four DOE programs that require industry repayment if the technologies are ultimately commercialized. The offices in which we focused most of our work planned to devote about $8 billion in federal funds to cost-shared projects over their lifetime, of which about $2.5 billion is subject to repayment.

Our June 1996 report discussed the advantages and disadvantages of having a repayment policy and pointed out that many of the disadvantages can be mitigated by structuring a flexible repayment requirement with the disadvantages in mind. It also discussed the types of programs and projects that would be the most appropriate or suitable for repayment of the federal investment.

Because opportunities exist for substantial repayment in some of DOE's programs, requiring repayment under a flexible policy would allow the government to share in the benefits of successfully commercialized technologies that could amount to hundreds of millions of dollars. The potential for repayment can be illustrated by assuming that if only 50

percent of the funds planned for projects that are currently not subject to repayment lend themselves to repayment, and if about 15 percent of research and development funds result in commercialized technologies (which DOE officials say is about average), then about $400 million could be repaid to the federal government. However, repayment provisions would only apply to future technology development projects not yet negotiated with industry. CBO estimates that this option would have no effect on receipts in the next 5 years because of the time lag between research and commercialization.

Related GAO Product

Energy Research: Opportunities Exist to Recover Federal Investment in Technology Development Projects (GAO/RCED-96-141, June 26, 1996).

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Reduce the Costs of the Rural Utilities Service's Electricity and Telecommunications Loan Programs

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, FDA and Related Agencies (House)
Primary agency	Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	271/Energy supply
Framework theme	Improve efficiency

The Rural Utilities Service (RUS), created by the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (P.L. 103-354, Oct. 13, 1994), was established to provide loan funds intended to assist in the development of the utility infrastructure in the nation's rural areas. RUS finances the construction, improvement, and repair of electrical, telecommunications, and water and waste disposal systems through direct loans and through repayment guarantees on loans made by other lenders. According to RUS reports, the outstanding principal owed on RUS loans totaled about $41 billion as of September 30, 1998. From a financial standpoint, RUS has successfully operated the telecommunications loan program, but the agency has had, and continues to have, significant financial problems with the electricity loan program. For example, during fiscal years 1992 through July 31, 1997, RUS wrote off the debt of four electricity loan borrowers totaling more than $1.5 billion. Since then, the agency has written off $0.3 billion and is in the process of writing off an additional $3.0 billion, and it is probable that the agency will continue to incur losses in the future.

RUS needs to take steps to increase the effectiveness and reduce the costs of its loan programs. RUS could, for example, (1) target loans to borrowers that provide services to areas with low populations, (2) target subsidized direct loans to borrowers that have a financial need for the agency's assistance, and (3) graduate the agency's financially viable borrowers from direct loans to commercial credit. Also, to reduce its vulnerability to losses, RUS could (1) establish loan and indebtedness

limits, (2) set the repayment guarantee at a level below 100 percent, and (3) prohibit loans to delinquent borrowers or to borrowers who have caused the agency to incur loan losses. CBO cannot develop an estimate for this option until specific proposals to improve efficiency are identified.

Related GAO Products

Rural Utilities Service: Status of Electric Loan Portfolio (GAO/AIMD-99-264R, Aug. 17, 1999).

Rural Water Projects: Federal Assistance Criteria and Potential Benefits of the Proposed Lewis and Clark Project (GAO/T-RCED-99-252, July 29, 1999).

Rural Water Projects: Identifying Benefits of the Proposed Lewis and Clark Project (GAO/RCED-99-115, May 28, 1999).

Rural Water Projects: Federal Assistance Criteria Related to the Fort Peck Reservation Rural Water Project (GAO/T-RCED-98-230, June 18, 1998).

Rural Utilities Service: Risk Assessment for the Electric Loan Portfolio (GAO/T-AIMD-98-123, Mar. 30, 1998).

Rural Utilities Service: Opportunities to Operate Electricity and Telecommunications Loan Programs More Effectively (GAO/AIMD-98-42, Jan. 21, 1998).

Federal Electricity Activities: The Federal Government's Net Cost and Potential for Future Losses (GAO/AIMD-97-110, Sept. 19, 1997).

Rural Development: Financial Condition of the Rural Utilities Service's Electricity Loan Portfolio (GAO/T-RCED-97-198, July 8, 1997).

Rural Development: Financial Condition of the Rural Utilities Service's Loan Portfolio (GAO/RCED-97-82, Apr. 11, 1997).

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Consolidate or Eliminate Department of Energy Facilities

Authorizing committees	Energy and Natural Resources (Senate) Energy and Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House)
Primary agency	Department of Energy
Account	Energy Supply, R&D Activities (89-0224)
Spending type	Discretionary
Budget subfunction	053/Atomic energy defense activities
Framework theme	Improve efficiency

Since 1982, many panels, commissions, and task forces, and several GAO studies have addressed how the Department of Energy (DOE) could achieve operational efficiencies in its research and development facilities. Recommendations have included focusing unclear missions, aligning laboratory activities more closely with DOE goals, consolidating facilities, and replacing cumbersome, inefficient management structures. In particular, with the end of the Cold War, DOE may no longer need to maintain three nuclear weapons laboratories. A DOE-chartered task force—the 1995 Task Force on Alternative Futures for the Department of Energy National Laboratories—reported that DOE's entire laboratory system could be reduced productively by eliminating obsolete and redundant missions and supporting infrastructure. Because such consolidations have not occurred, science budgets are being spent increasingly on maintenance of obsolete and inappropriate infrastructure, rather than innovative research and development, or to support other important DOE missions.

Congress recently reorganized DOE's defense laboratories and put them under control of the new semi-autonomous National Nuclear Security Administration. However, what is still needed is a mission-by-mission examination of DOE. This reassessment should explore alternative organizational approaches to best implement DOE's missions and, ideally, should be part of a governmentwide restructuring of related programs and activities. An outcome of this reassessment could be to reorganize existing national laboratories to focus on specific DOE programs and activities, eliminating duplication of both structures and personnel. This could

include converting some labs into private or quasi-private entities, transferring labs to universities, or assigning them to different agencies whose missions better match lab strengths.

One specific option that Congress could consider is consolidating the nuclear weapons functions of the Lawrence Livermore facility into the Los Alamos laboratory. In 1999, when funding requests at Lawrence Livermore totaled about $500 million a year, DOE estimated that consolidating engineering and testing efforts could save about $200 million in annual operating costs. The table below reflects savings from phasing in such a consolidation over a 5-year period.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2003 plan					
Budget authority	70	140	220	300	380
Outlays	50	110	190	270	350

Related GAO Products

Department of Energy: Need to Address Longstanding Management Weaknesses (GAO/T-RCED-99-255, July 13, 1999).

Department of Energy: Key Factors Underlying Security Problems at DOE Facilities (GAO/T-RCED-99-159, Apr. 20, 1999).

Department of Energy: Uncertain Progress in Implementing National Laboratory Reforms (GAO/RCED-98-197, Sept. 10, 1998).

Federal R&D Laboratories (GAO/RCED/NSIAD-96-78R, Feb. 29, 1996).

Department of Energy: A Framework for Restructuring DOE and Its Missions (GAO/RCED-95-197, Aug. 21, 1995).

Department of Energy: National Laboratories Need Clearer Mission and Better Management (GAO/RCED-95-10, Jan. 27, 1995).

DOE's National Laboratories: Adopting New Missions and Managing Effectively Pose Significant Challenges (GAO/T-RCED-94-113, Feb. 3, 1994).

Department of Energy: Management Problems Require a Long-term Commitment to Change (GAO/RCED-93-72, Aug. 31, 1993).

Nuclear Weapons Complex: Issues Surrounding Consolidating Los Alamos and Lawrence Livermore National Laboratories (GAO/RCED-92-98, Sept. 24, 1992).

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300 Natural Resources and Environment

Terminate Land-Exchange Programs
Defer Fish and Wildlife Service's Acquisition of New Lands
Deny Additional Funding for Commercial Fisheries Buyback Programs
Revise the Mining Law of 1872
Coordinate Federal Policies for Subsidizing Water for Agriculture and Rural Uses
Reassess Federal Land Management Agencies' Functions and Programs
Pursue Cost-Effective Alternatives to NOAA's Research/Survey Fleet
Increase Federal Revenues through Water Transfers

Terminate Land-Exchange Programs

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Energy and Natural Resources (Senate) Agriculture (House) Resources (House)
Appropriations subcommittees	Interior and Related Agencies (Senate and House)
Primary agencies	Department of the Interior Department of Agriculture
Account	Multiple
Spending type	Discretionary
Budget subfunctions	302/Conservation and Land Management
Framework theme	Reassess objectives

The Bureau of Land Management (BLM) and the Forest Service have long used land exchanges—trading federal lands for lands that are owned by corporations, individuals, or state or local governments—as a tool for acquiring nonfederal land and conveying federal land. By law, for an exchange to occur, the estimated value of the nonfederal land must be within 25 percent of the estimated value of the federal land, the public interest must be well served, and certain other exchange requirements must be met. Recognizing the importance of land exchanges in supplementing the federal funds that were available for purchasing land, the Congress, in 1988, passed legislation to facilitate and expedite land exchanges. Since then, BLM and the Forest Service have acquired about 1,500 square miles of land through land exchanges.

Several fundamental issues create significant problems in the use of land exchanges. For instance, in 1998, the cognizant inspectors general identified exchanges in which lands were inappropriately valued and the public interest was not well served. Also, although current law does not authorize BLM to retain or use proceeds from selling federal land, BLM sold federal land and retained the sales proceeds in escrow accounts. Further, BLM did not track these sales proceeds in its financial management system. At least some of BLM's and the Forest Service's continuing problems may reflect inherent underlying difficulties associated with exchanging land—rather than buying and selling land for cash. In most circumstances, cash-based transactions would be simpler and less costly.

While both agencies have taken steps to improve their land-exchange programs, the many controversies and problems associated with their programs reflect, in part, the difficulties and inefficiencies inherent in these exchange programs. On the basis of these difficulties and inefficiencies, the Congress may wish to consider directing both agencies to terminate their land-exchange programs. CBO was unable to develop a savings estimate for this option.

Related GAO Products

National Park Service: Federal Taxpayers Could Have Benefited More From Potomac Yard Land Exchange (GAO-01-292, Mar. 15, 2001).

BLM and the Forest Service: Land Exchanges Need to Reflect Appropriate Value and Serve the Public Interest (GAO/RCED-00-73, June 22, 2000).

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Defer Fish and Wildlife Service's Acquisition of New Lands

Authorizing committees	Environment and Public Works (Senate) Resources (House)
Appropriations subcommittees	Interior and Related Agencies (House and Senate)
Primary agency	Department of the Interior
Account	Land Acquisition (14-5020) Resource Management (14-1611)
Spending type	Discretionary
Budget subfunction	303/Recreational Resources
Framework theme	Reassess objectives

The Fish and Wildlife Service has increased its land holdings through acquisitions with appropriated and nonappropriated funds and by accepting donated land from nonfederal entities or transferred land that other federal agencies have acquired. It has a goal of annually acquiring land for refuges as it identifies acquisition opportunities or new areas of biological value. Over the last 30 years, it has established more than 200 refuges and acquired about 63 million acres of land for the national wildlife refuge system. While the Service does not have an estimate of the number of acres remaining to complete the refuge system, it did have estimates for 144 refuges as of fiscal year 1998. For these, the Service plans showed that about 2.8 million acres were still to be acquired with about $3.8 billion in appropriated funds.

The Service continues to acquire land even though it has an almost $2 billion backlog of operations and maintenance needs. It focuses on acquiring lands—to meet its land protection mission—but has not adequately considered whether funds will be available for future operations and maintenance expenses. For example, in its fiscal year 2001 budget request, the Service requested a much larger increase for land acquisition (116 percent or about $60 million) than it did for refuge operations and maintenance (8 percent or nearly $20 million). For fiscal year 2000, in comparison, the Service had requested a 53 percent increase for land acquisition and about 11 percent for refuge operations and maintenance.

Acquiring additional holdings, while a current backlog of operations and maintenance needs continues to increase, could potentially exacerbate long-term budgetary pressures and contribute to further deterioration of the existing program. If the Congress chose to address this growing problem, one approach would be to withhold all funding for additional land acquisitions for 5 years, so that the Fish and Wildlife Service can focus on improving its stewardship responsibilities. CBO estimates that deferring Fish and Wildlife land purchases for 5 years would result in the following savings.

Five-Year Savings

Dollars in millions

	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 funding level					
Budget authority	101	104	106	109	111
Outlays	38	64	86	98	103

Note: This estimate is only for savings from deferring land acquisition costs and does not account for any changes in operations and maintenance expenditures.

Source: Congressional Budget Office.

Related GAO Products

Fish and Wildlife Service: Agency Needs to Inform Congress of Future Costs Associated With Land Acquisitions (GAO/RCED-00-52, Feb. 15, 2000).

Fish and Wildlife Service: Agency Needs to Inform Congress of Future Costs Associated With Land Acquisitions (GAO/T-RCED-00-89, Feb. 15, 2000).

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Deny Additional Funding for Commercial Fisheries Buyback Programs

Authorizing committees	Commerce, Science, and Transportation (Senate) Resources (House)
Appropriation committees	Commerce, Justice, State, and the Judiciary (Senate and House)
Primary agency	Commerce
Accounts	Operations, research, and facilities (13-1450)
Spending type	Discretionary
Budget subfunction	306/Other natural resources
Framework theme	Reassess objectives

Fish populations in many commercial fisheries are declining, resulting in a growing imbalance between the number of vessels in fishing fleets and the number of fish available for harvest. In response to this growing imbalance, the federal government has provided $140 million since 1995 to purchase fishing permits, fishing vessels, and related gear from fishermen, thereby reducing the capacity of fishermen to harvest fish. Generally, the government designed these purchases, called buybacks, to achieve multiple goals, such as reducing the capacity to harvest fish, providing economic assistance to fishermen, and improving the conservation of fish. Coastal states issue permits and develop and enforce regulations for fishing in waters that are near their shores. In areas outside state jurisdiction, the National Marine Fisheries Service (NMFS) within the Department of Commerce is responsible for issuing permits and developing and enforcing regulations for harvesting fish. Because excessive fishing capacity has been a continuing problem in many fisheries, several additional buybacks have been proposed that, if implemented, would be in excess of $250 million.

GAO found that buyback programs in three fisheries we evaluated removed from 10 to 24 percent of their respective fishing capacities. However, the experiences of these three cases demonstrate that the long-term effectiveness of buyback programs depends upon whether previously inactive fishermen or buyback beneficiaries return to the fishery. For example, while 79 boats were sold in the New England buyback, 62 previously inactive boats have begun catching groundfish since the

buyback. In addition, several buyback participants purchased boats with buyback funds and returned to the fishery. Long-term effectiveness of buyback programs may also depend on whether fishermen have incentives to increase remaining fishing capacity in a fishery. Importantly, buyback programs by themselves do not address the root cause of excess fishing capacity, that being the ongoing incentives fishermen have to invest in larger or better equipped fishing vessels in order to catch fish before someone else does.

The problems of past buyback programs should be addressed as part of the design of any future programs. Given the experiences of buyback programs to date—both in terms of their limited effects on reducing fishing capacity and in terms of their inability to effectively address the root causes of overfishing—one option the Congress may wish to consider is denying additional funding for proposed programs until these fundamental weaknesses are resolved. CBO cannot develop a savings estimate without a more specific proposal.

Related GAO Product

Commercial Fisheries: Entry of Fishermen Limits Benefits of Buyback Programs (GAO/RCED-00-120, June 14, 2000).

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Revise the Mining Law of 1872

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Energy and Natural Resources (Senate) Agriculture (House) Resources (House)
Primary agencies	Department of the Interior Department of Agriculture
Spending type	Direct
Framework theme	Redefine beneficiaries

The Mining Law of 1872 allows holders of economically minable claims on federal lands to obtain all rights and interests to both the land and the hardrock minerals by patenting the claims for $2.50 or $5.00 an acre--amounts that do not necessarily reflect the market value of such lands today. Since 1872, the federal government has patented more than 3 million acres of mining claims (an area about the size of Connecticut), and some patent holders have reaped huge profits by reselling their lands. For example, lands that had been appraised at between $14.4 million and $47.1 million in 1988 would have generated only about $16,000 for the federal government in 1989 if the claims were patented. Furthermore, miners do not pay royalties to the government on hardrock minerals they extract from federal lands. In 1990, hardrock minerals worth at least $1.2 billion were extracted from federal lands, while known and economically recoverable reserves of hardrock minerals remaining on federal lands were estimated to be worth almost $64.9 billion.

Among the options that are available are to prohibit the issuance of new patents, require the payment of fair market value for a patent, or otherwise modify the requirements for patenting. Legislation could also be enacted to impose royalties on hardrock minerals extracted from federal lands. As one possible option, if the Congress adopted a 5-percent royalty on net smelter returns, CBO estimates that he following receipts would be gained.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 funding level					
Offsetting Receipts	7	7	7	7	7

Source: Congressional Budget Office.

Related GAO Products

Bureau of Land Management: Improper Charges Made to Mining Law Administration Program (GAO-01-491T, Mar. 29, 2001).

Bureau of Land Management: Improper Charges Made to Mining Law Administration Program (GAO-01-356, Mar. 8, 2001).

National Park Service: Agency Should Recover Costs of Validity Examinations for Mining Claims (GAO/RCED-00-265, Sept. 19, 2000).

Review of the Bureau of Land Management's Administration and Use of Mining Maintenance Fees (GAO/AIMD-00-184R, June 2, 2000).

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

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

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

Federal Land Management: The Mining Law of 1892 Needs Revision (GAO/RCED-89-72, Mar. 10, 1989).

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Coordinate Federal Policies for Subsidizing Water for Agriculture and Rural Uses

Authorizing committees	Energy and Natural Resources (Senate) Resources (House)
Primary agency	Department of the Interior
Spending type	Direct
Framework theme	Redefine beneficiaries

Federal water programs to promote efficient use of finite water resources for the nation's agricultural and rural water systems have developed inconsistencies that may cause the programs to work at cross-purposes. In 1995, as many as eight different federal agencies administered 17 different programs in the area of rural water and wastewater systems. In the area of irrigation, the multiplicity of programs and approaches has allowed for inconsistencies and potentially counterproductive outcomes.

To improve the effectiveness and efficiency of federal water programs, the Congress could consider several options to reduce duplication or inconsistencies, including the following.

Collecting the Full Costs of Subsidized Federal Water for Large Farms

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 to which it is entitled under the act.

Phasing Out the Double Subsidies for Crops

The use of federally subsidized water to produce federally subsidized crops results in the government paying double subsidies. According to the Department of the Interior, from 1976 through 1985, an average of 38 percent of the acreage served by the Bureau of Reclamation nationwide

was used to produce crops that are also eligible for subsidies through the Department of Agriculture's commodity programs. Estimates of the cost of federal water subsidies vary but are substantial. The Department of the 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 $830 million.

Accelerating the Repayment of Water Project Construction Costs

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, 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 CVP by 2030. While construction costs ultimately may be recovered by 2030, the dollars that eventually flow to the Treasury could be worth much less than if they had been repaid sooner. The Congress may wish to accelerate the repayment schedule.

Fully Recovering the Federal Investments in Rural Water Systems

Under the current repayment criteria, approximately $454 million of the federal investment in the Pick-Sloan Basin Program (a comprehensive plan to manage the water and hydropower resources of the Missouri River basin) is unrecoverable. A portion of Pick-Sloan's completed facilities was intended for use with irrigation facilities that have not been completed and are no longer considered feasible. In addition, as the overall federal investment in the other aspects of the completed hydropower facilities increases because of changes such as renovations and replacements, the amount of the federal investment that is unrecoverable will increase. Changing the terms of repayment to recover any of the $454 million investment would require congressional action. Consistent with previous congressional action concerning the program, the Congress could direct the Western Area Power Administration to recover the investment through power revenues and to take action to minimize any impact on power rates.

Phasing Out the Interest Subsidies for Irrigators

Estimates of the current cost of federal water subsidies are substantial. For example, the Department of the Interior reported that irrigation subsidies throughout the 17 western states totaled $534 million in 1986, while the Bureau of Reclamation placed the cost at $2.2 billion. Estimates differ because of different definitions of an irrigation subsidy, different interest rates used to calculate the subsidies, and different methods for

compounding unpaid interest. Much has changed in the west since the subsidies were established in 1902, and it is not known whether the subsidies are still warranted or whether irrigators could pay more of the cost of the water delivered.

CBO cannot estimate savings for these options without further information.

Related GAO Products

Rural Water Projects: Federal Assistance Criteria and Potential Benefits of the Proposed Lewis and Clark Project (GAO/RCED-99-252T, July 29, 1999).

Rural Water Projects: Identifying the Benefits of the Proposed Lewis and Clark Project (GAO/RCED-99-115, May 28, 1999).

Rural Water Projects: Federal Assistance Criteria Related to the Lewis and Clark Rural Water Project (GAO/RCED-98-231T, June 18, 1998).

Rural Water Projects: Federal Assistance Criteria Related to the Fort Peck Reservation Rural Water Project (GAO/RCED-98-230, June 18, 1998).

Rural Water Projects: Federal Assistance Criteria (GAO/RCED-98-204R, May 29, 1998).

Federal Power: Recovery of Federal Investment in Hydropower Facilities in the Pick-Sloan Program (GAO/T-RCED-96-142, May 2, 1996).

Rural Development: Patchwork of Federal Water and Sewer Programs Is Difficult to Use (GAO/RCED-95-160BR, Apr. 13, 1995).

Water Subsidies: Impact of Higher Irrigation Rates on Central Valley Project Farmers (GAO/RCED-94-8, Apr. 19, 1994).

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

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

Water Subsidies: The Westhaven Trust Reinforces the Need to Change Reclamation Law (GAO/RCED-90-198, June 5, 1990).

Water Subsidies: Basic Changes Needed to Avoid Abuse of the 960-Acre Limit (GAO/RCED-90-6, Oct. 12, 1989).

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Reassess Federal Land Management Agencies' Functions and Programs

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Energy and Natural Resources (Senate) Agriculture (House) Resources (House)
Appropriations subcommittees	Interior and Related Agencies (Senate and House)
Primary agencies	Department of the Interior Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	302/Conservation and land management
Framework theme	Improve efficiency

The responsibilities of the four major federal land management agencies--the National Park Service, the Bureau of Land Management (BLM), and the Fish and Wildlife Service within the Department of Interior, and the Forest Service within the Department of Agriculture--have grown more similar over time. Most notably, the Forest Service and BLM now provide more noncommodity uses, including recreation and protection for fish and wildlife, on their lands. In addition, managing federal lands has become more complex. Managers have to reconcile differences among a growing number of laws and regulations, and the authority for these laws is dispersed among several federal agencies and state and local agencies. These changes have coincided with two other developments--the federal government's increased emphasis on downsizing and budgetary constraint and scientists' increased understanding of the importance and functioning of natural systems whose boundaries may not be consistent with existing jurisdictional and administrative boundaries. Together, these changes and developments suggest a basis for reexamining the processes and structures under which the federal land management agencies currently operate.

Two basic strategies have been proposed to improve federal land management: (1) streamlining the existing structure by coordinating and integrating functions, systems, activities, programs, and field locations and (2) reorganizing the structure by combining agencies. The two strategies are not mutually exclusive and some prior proposals have encompassed both.

Over the last several years, the Forest Service and BLM have collocated some offices or shared space with other federal agencies. They have also pursued other means of streamlining, sharing resources, and saving rental costs. However, no significant legislation has been enacted to streamline or reorganize federal land management agencies and the four major federal land management agencies have not, to date, developed a strategy to coordinate and integrate their functions, systems, activities, and programs.

Without a specific restructuring proposal that would eliminate certain programs or revise how the land is managed, CBO is unable to estimate savings due to shared resources among the four major land management agencies. Savings would depend on the extent of a workforce restructuring and implementation proposal.

Related GAO Products

The National Fire Plan: Federal Agencies Are Not Organized to Effectively and Efficiently Implement the Plan (GAO-01-1022T, July 31, 2001).

Land Management Agencies: Ongoing Initiative to Share Activities and Facilities Needs Management Attention (GAO-01-50, Nov. 21, 2000).

Federal Wildfire Activities: Current Strategy and Issues Needing Attention (GAO/RCED-99-223, Aug. 13, 1999).

Land Management: The Forest Service's and BLM's Organizational Structures and Responsibilities (GAO/RCED-99-227, July 29, 1999).

Ecosystem Planning: Northwest Forest and Interior Columbia River Basin Plans Demonstrate Improvements in Land-Use Planning (GAO/RCED-99-64, May 26, 1999).

Land Management Agencies: Revenue Sharing Payments to States and Counties (GAO/RCED-98-261, Sept. 17, 1998).

Federal Land Management: Streamlining and Reorganization Issues (GAO/T-RCED-96-209, June 27, 1996).

National Park Service: Better Management and Broader Restructuring Efforts Are Needed (GAO/T-RCED-95-101, Feb. 9, 1995).

Forestry Functions: Unresolved Issues Affect Forest Service and BLM Organizations in Western Oregon (GAO/RCED-94-124, May 17, 1994).

Forest Service Management: Issues to Be Considered in Developing a New Stewardship Strategy (GAO/T-RCED-94-116, Feb. 1, 1994).

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Pursue Cost-Effective Alternatives to NOAA's Research/Survey Fleet

Authorizing committees	Commerce, Science and Transportation (Senate) Energy and Commerce (House)
Appropriations subcommittees	Commerce, Justice, State, and the Judiciary
Primary agency	Department of Commerce
Account	Procurement, Acquisition and Construction (13-1460)
Spending type	Discretionary
Budget subfunction	306/Other natural resources
Framework theme	Improve efficiency

The National Oceanic and Atmospheric Administration (NOAA) has an aging in-house fleet of 15 ships that are used to support its programs in fisheries research, oceanographic research, and hydrographic charting and mapping. Most of NOAA's ships are past their 30-year life expectancies, and many of them are costly and inefficient to operate and maintain and lack latest state-of-the-art technology. NOAA's ships are managed and operated by a NOAA Corps of about 240 uniformed service commissioned officers who, like the Public Health Service Commissioned Corps, perform civilian rather than military functions but are covered by a military-like pay and benefits system.

For more than a decade, congressional committees, public and private sector advisory groups, the National Performance Review (NPR), the Commerce Office of Inspector General (OIG), and our office have urged NOAA to aggressively pursue more cost-effective alternatives to its in-house fleet of ships. Since 1990, NOAA has developed several fleet replacement and modernization plans that call for investments of millions of dollars to upgrade or replace these ships, and each has been criticized by the Commerce OIG for not pursuing alternative approaches strongly enough. In 1996, the OIG recommended that NOAA terminate its fleet modernization efforts; cease investing in its ships; immediately begin to decommission, sell, or transfer them; and contract for the required ship services.

In response, NOAA has decommissioned almost one-third of its fleet since 1990 and now outsources about 40 percent of its research and survey needs. Although NOAA has increased its outsourcing for these services and expects to further increase its use of outsourcing to about 50 percent over the next 10 years, NOAA continues to rely heavily on its old, inefficient fleet and still plans to replace or upgrade some of these ships. In this regard, the President's budget for fiscal year 2000 proposed $52 million for construction of a new fisheries research ship. In addition, Commerce's congressional budget presentation for fiscal year 2000 indicated that NOAA planed to spend another $133 million during fiscal years 2001 through 2004 for three additional replacement ships.

The Congress approved the $52 million budget request for acquiring the first of four new ships. However, in its September 1999 Semiannual Report, the Commerce OIG stated that NOAA had not developed a contingency plan for collecting fisheries data in the case that it does not receive follow-on funding for the remaining vessels. According to the OIG, the absence of such a plan places the fisheries program at serious risk and NOAA's challenge remains to thoroughly assess and aggressively pursue alternative approaches instead of relying so heavily on owning and operating an in-house fleet. Pursuing cost-effective alternatives could help reduce the additional $133 million NOAA estimates is needed through fiscal year 2004 for fleet replacement. CBO agrees that savings are possible depending on the specific alternative that is proposed.

Related GAO Products

Department of Commerce: National Weather Service Modernization and NOAA Fleet Issues (GAO/T-AIMD/GGD-99-97, Feb. 24, 1999).

Major Management Challenges and Program Risks: Department of Commerce (GAO/OCG-99-3, Jan. 1999).

Issues on the National Oceanic and Atmospheric Administration's Commissioned Corps (GAO/GGD-98-35R, Dec. 2, 1997).

National Oceanic and Atmospheric Administration: Issues on the Civilianization of the Commissioned Corps (GAO/T-GGD-98-22, Oct. 29, 1997).

Federal Personnel: Issues on the Need for NOAA's Commissioned Corps (GAO/GGD-97-10, Oct. 31, 1996).

Research Fleet Modernization: NOAA Needs to Consider Alternatives to the Acquisition of New Vessels (GAO/RCED-94-170, Aug. 3, 1994).

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Increase Federal Revenues through Water Transfers

Authorizing committees	Energy and Natural Resources (Senate) Resources (House)
Primary agency	Department of the Interior
Spending type	Direct
Framework theme	Improve efficiency

Water transfers, in which rights to use water are bought and sold, are a mechanism for reallocating scarce water to new users by allowing those who place the highest economic value on the resource to purchase it. Water transfers are a valuable tool for improving the efficiency of water use and environmental quality and can be a promising way to increase federal revenues for water development projects. Current reclamation law provides the Secretary of the Interior with discretion in establishing municipal and industrial charges to recover some of the costs of constructing the projects. However, Interior's principles governing water transfers focus on facilitating transfers and placing the government in the same or a better financial condition after a transfer is made, rather than charging the highest amounts possible without discouraging transfers. Increasing federal revenues will reduce the net benefits to the buyers and sellers, thereby discouraging some transfers. Deciding how much the Bureau of Reclamation should charge for transferred water involves balancing the increase in federal revenues with retaining incentives for water transfers to occur. Moreover, many reclamation projects have specified interest rates in authorizing legislation that limit interest charges below current levels.

The Congress may wish to change reclamation law to allow the use of current Treasury borrowing rates in establishing charges for transferred water. If this change was implemented in 2000, CBO estimates the following additional receipts. This estimate assumes that 3 percent of the outstanding irrigation-related debt of about $2 billion is annually traded, with the interest rate tied to the 30-year Treasury rate.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Added receipts	3	4	4	4	4

Source: Congressional Budget Office.

Related GAO Products

Bureau of Reclamation: Water Marketing Activities and Costs at the Central Valley Project (GAO-01-553, May 4, 2001).

Water Markets: Increasing Federal Revenues Through Water Transfers (GAO/RCED-94-164, Sept. 21, 1994).

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350 Agriculture

Terminate or Significantly Reduce the Department of Agriculture's Market Access Program
Lower the Sugar Program's Loan Rate to Processors
Consolidate Common Administrative Functions at USDA
Further Consolidate USDA's County Offices
Revise the Marketing Assistance Loan Program to Better Reflect Market Conditions

Terminate or Significantly Reduce the Department of Agriculture's Market Access Program

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, FDA, and Related Agencies (House)
Primary agency	Department of Agriculture
Account	Commodity Credit Corporation (12433-6)
Spending type	Discretionary
Budget subfunction	351/Farm income stabilization
Framework theme	Reassess objectives

The Market Access Program is an export promotion program operated by the Foreign Agricultural Service of the Department of Agriculture. The $90 million program subsidizes the promotion of U.S. agricultural products in overseas markets. Through a cost-sharing arrangement, the program helps fund overseas promotions conducted by U.S. agricultural producers, cooperatives, exporters, and trade associations. About three-quarters of the program budget supports generic promotions, with the remaining funds supporting brand-name promotions.

Beginning in fiscal year 1993, the Congress directed that changes be made to the program in order to increase the emphasis on small businesses, establish a graduation limit, and certify that program funds supplement, not supplant, private sector expenditures. From fiscal year 1994 through fiscal year 1997, program reforms resulted in increases to the number of small businesses participating in the program as well as small businesses' share of program funds. In addition, in 1998, the Foreign Agricultural Service prohibited direct and indirect assistance to large companies for brand-name promotions unless the assistance was provided through cooperatives and certain associations. The Service also implemented a 5-year graduation requirement for brand-name promotional activities but waived this requirement for cooperatives. As a result, $5 million of promotional activities by cooperatives for brand-name products remained eligible for program funding.

Questions remain about the overall economic benefits derived from the Market Access Program. Estimates of the program's macroeconomic impact developed by the Foreign Agricultural Service are overstated and rely on a methodology that is inconsistent with Office of Management and Budget cost/benefit guidelines. In addition, the evidence from market-level studies is inconclusive regarding program impact on specific commodities in specific markets. Furthermore, it is difficult to ensure that funds for promotional activities are in addition to private sector expenditures because it is hard to determine what would have been spent in the absence of program funds.

The Conference Report on the Omnibus Consolidated and Emergency Supplemental Appropriations Act of 1999 directed the Secretary of Agriculture to submit a report that, among other things, estimates the economic impact of the Market Access Program, analyzes the costs and benefits of the program in a manner consistent with government cost/benefit guidelines, and evaluates the additional spending of participants and additional exports resulting from the program. In its report, the Foreign Agricultural Service plans to combine the results of an external review of a sample of promotional programs with a study of overall program impact. Unless the report provides convincing evidence that the program has a positive economic impact, results in increased exports that would not have occurred without the program, and supplements and does not supplant private sector expenditures, the Congress might choose to terminate the program or significantly reduce its funding. CBO estimates the following savings could be achieved if the Market Access Program is terminated.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 funding level					
Budget authority	5	73	90	90	90
Outlays	5	73	90	90	90

Source: Congressional Budget Office.

Related GAO Products

Agricultural Trade: Changes Made to Market Access Program, but Questions Remain on Economic Impact (GAO/NSIAD-99-38, Apr. 5, 1999).

U.S. Agricultural Exports: Strong Growth Likely, but U.S. Export Assistance Programs' Contribution Uncertain (GAO/NSIAD-97-260, Sept. 30, 1997).

Farm Bill Export Options (GAO/GGD-96-39R, Dec. 15, 1995).

Agricultural Trade: Competitor Countries' Foreign Market Development Program (GAO/T-GGD-95-184, June 14, 1995).

International Trade: Changes Needed to Improve Effectiveness of the Market Promotion Program (GAO/GGD-93-125, July 7, 1993).

U.S. Department of Agriculture: Improvements Needed in Market Promotion Program (GAO/T-GGD-93-17, Mar. 25, 1993).

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Lower the Sugar Program's Loan Rate to Processors

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development and Related Agencies (Senate) Agriculture, Rural Development, FDA and Related Agencies (House)
Primary agency	Department of Agriculture
Accounts	Commodity Credit Corporation Fund (12-4336)
Spending type	Direct
Budget Subfunction	351/Farm income stabilization
Framework theme	Redefine beneficiary

The sugar program, administered by the U.S. Department of Agriculture (USDA), guarantees domestic cane sugar and beet sugar producers (growers and processors) a minimum price for sugar, which during the past year has been about three times the world market price. The sugar program supports domestic sugar prices by offering loans to sugar processors at a rate established by law: 18 cents per pound for raw cane sugar and 22.9 cents per pound for refined beet sugar, with the sugar serving as collateral for these loans. The program has allowed processors to forfeit their sugar to the federal government instead of repaying their loans—which they are likely to do if domestic sugar prices fall below the level of the loan rate plus certain costs that processors would no longer incur if they forfeited. To minimize the likelihood of forfeitures, a direct cost to taxpayers, the sugar program has maintained artificially high sugar prices by using a tariff-rate quota to restrict the amount of sugar that can be imported at a low tariff duty.

The sugar program increases users' costs. The program's costs depend on the world price of sugar and tend to be higher when the difference between the domestic and the world price is greater. GAO estimated that the program cost domestic sweetener users about $1.5 billion in 1996 and about $1.9 billion in 1998 (in 1999 dollars). The program's costs were higher in 1998 because the world price dropped while the domestic price remained about the same. The sugar program also added to the federal government's costs in fiscal year 2000. USDA spent $54 million to purchase sugar on the domestic market to help maintain prices and prevent sugar

loan forfeitures in May and June 2000. USDA also took possession of about 950,000 tons of sugar valued at about $380 million that processors have forfeited instead of repaying their sugar loans. The sugar program has an additional effect on government costs because the government purchases sugar and sugar-containing products for food assistance programs, consumption by the military, and other purposes.

The Congress and USDA may want to take steps to gradually lower the loan rates and increase the tariff-rate quota accordingly to reduce the costs of the sugar program to both sugar users and the government. For example, if the Congress lowered the loan rates for cane and beet sugar by two cents per pound each, government savings might accrue in two ways. The lower loan rates would reduce the likelihood of loan forfeitures and the resulting lower market price for sugar would reduce the amount the government spends for sugar and sugar-containing products that it buys for government feeding programs, consumption by the military, and other purposes. While CBO agrees that this proposal could lead to savings, they are not able to estimate specific savings at this time.

Related GAO Products

Sugar Program: Supporting Sugar Prices Has Increased Users' Costs While Benefiting Producers (GAO/RCED-00-126, June 9, 2000).

Sugar Program: Changing the Method for Setting Import Quotas Could Reduce Cost to Users (GAO/RCED-99-209, July 26, 1999).

Sugar Program: Impact on Sweetener Users and Producers (GAO/T-RCED-95-204, May 24, 1995).

Sugar Program: Changing Domestic and International Conditions Require Program Changes (GAO/RCED-93-84, Apr. 16, 1993).

GAO Contact

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Consolidate Common Administrative Functions at USDA

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, FDA and Related Agencies (House)
Primary agency	Department of Agriculture
Accounts	Multiple
Spending type	Discretionary/Direct
Budget subfunction	352/Agricultural research and services
Framework theme	Improve efficiency

In accordance with the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, USDA has engaged in a reorganization and modernization effort targeted at achieving greater economy and efficiency and better customer service by the Farm Service Agency, the Natural Resources and Conservation Service, and the agencies in the Rural Development mission. USDA's efforts consist of five interrelated initiatives: (1) collating the agencies' county and state offices, (2) merging the agencies' administrative functions at the state and headquarters level under a single support organization, (3) redesigning agencies' business processes, (4) modernizing information technology, and (5) changing the agencies' cultures to improve customer services.

USDA's progress in these initiatives has been mixed. For example, despite the agencies' collocation of county offices and other efforts, little has changed in how the three agencies serve their customers. Also, many modernization and reengineering projects have encountered delays.

To further streamline its organization, increase efficiency, and reduce overhead costs associated with running separate offices, USDA could do more to combine agencies' support functions, such as legislative and legal affairs and public information, into a single office serving the needs of all mission component agencies. In addition, even though USDA has developed a plan to converge administrative functions for county-based agencies, a number of obstacles need to be overcome if the plan is to be successfully implemented, including the selection of a strong leadership

team to implement the convergence plan. CBO agrees that this option could potentially yield savings, but did not develop a savings estimate due to uncertainty of the extent to which improved efficiencies actually lead to budgetary savings.

Related GAO Products

USDA Reorganization: Progress Mixed in Modernizing the Delivery of Services (GAO/RCED-00-43, Feb. 3, 2000).

U.S. Department of Agriculture: Administrative Streamlining is Expected to Continue Through 2002 (GAO/RCED-99-34, Dec. 11, 1998).

U.S. Department of Agriculture: Update on Reorganization and Streamlining Efforts (GAO/RCED-97-186R, June 24, 1997).

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Further Consolidate USDA's County Offices

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, FDA and Related Agencies (House)
Primary agency	Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	351/Farm income stabilization
Framework theme	Improve efficiency

USDA maintains a field office structure that dates back to the 1930s when transportation and communication systems limited the geographic boundaries covered by a single field office and when there were a greater number of small, widely disbursed, family-owned farms. In 1933, the United States had more than 6 million farmers; today the number of farms in the United States is less than 2 million and a small fraction of these produce more than 70 percent of the nation's agricultural output. At various times, the Congress has attempted to reduce the number of county offices serving farmers and/or reduce county office staffing. Most recently, the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (P.L. 103-354, Oct. 13, 1994) directed the Secretary of Agriculture to streamline departmental operations by consolidating county offices.

In response to the Agriculture Reorganization Act, USDA has closed over 1,000 county office locations and reduced staffing at its county offices. However, as the agency states in its September 2001 *Food and Agricultural Policy: Taking Stock for the New Century*, "Further actions are necessary to ensure that the USDA farm service structure is appropriately sized, configured, and located for efficient provision of the new services demanded by a rapidly evolving food and agriculture system."

USDA could further consolidate its county office field structure, for example, by closing more of its small county offices. Criteria for determining which small county offices to close could include the

(1) distance from another county office, (2) time spent on administrative duties, and (3) number of farmers who receive USDA financial benefits. Although CBO agrees that closing offices that serve few farmers would produce savings, it cannot develop a savings estimate until a specific proposal is identified.

Related GAO Products

USDA Reorganization: Progress Mixed in Modernizing the Delivery of Services (GAO/RCED-00-43, Feb. 3, 2000).

Farm Service Agency: Characteristics of Small County Offices (GAO/RCED-99-102, May 28, 1999).

U.S. Department of Agriculture: Status of Closing and Consolidating County Offices (GAO/T-RCED-98-250, July 29, 1998).

Farm Programs: Service to Farmers Will Likely Change as Farm Service Agency Continues to Reduce Staff and Close Offices (GAO/RCED-98-136, May 1, 1998).

Farm Programs: Administrative Requirements Reduced and Further Program Delivery Changes Possible (GAO/RCED-98-98, Apr. 20, 1998).

Farm Programs: Impact of the 1996 Farm Act on County Office Workload (GAO/RCED-97-214, Aug. 19, 1997).

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Revise the Marketing Assistance Loan Program to Better Reflect Market Conditions

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House)
Appropriation committees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, FDA and Related Agencies (House)
Primary agency	Department of Agriculture
Accounts	Commodity Credit Corporation Fund (12-4336)
Spending type	Direct
Budget subfunction	351/Farm income stabilization
Framework theme	Improve efficiency

The U.S. Department of Agriculture's (USDA) marketing assistance loan program is designed to provide producers of certain crops—wheat, feed grains, oilseeds, upland cotton, and rice—with interim financial assistance at harvest, when prices are usually lower than at other times of the year. The program is composed of two major components—loans and loan deficiency payments. Under the loan component, producers can use their harvested crop as collateral to obtain the loans. The program gives producers the choice of one of three options for settling marketing loans, effectively guaranteeing a minimum price for these crops. First, producers can sell their crop and repay the loan with interest, which they are likely to do if the market price is high. Second, if crop prices remain too low to allow producers to repay the loan plus interest, they can sell the crop and repay the loan at the posted county price and keep the difference, which is called a marketing loan gain. Finally, if the price is low, producers can forfeit their collateral and keep the loan amount. The program's other component—the loan deficiency payment—reflects the difference by which the applicable county loan rate exceeds the posted county price on the day a producer requests such a payment. If producers choose this component, they receive a cash payment and can sell their crop whenever they choose. The amount of a marketing assistance loan is based on the amount of the crop offered as collateral multiplied by the county loan rate. This rate is a per-unit price for each crop that is established on a national basis by law and then adjusted by USDA to reflect county variations in market prices across the country. In accordance with current farm legislation, the Secretary of Agriculture may adjust the marketing

assistance loan rate annually within the national loan rates legislatively established for specific crops.

Cash payments for this program have significantly increased in the last few years. In 1996, the market assistance loan program served primarily as a source of interim financing because crop prices were high enough to enable producers to sell their crops and repay their loans. However, in 1998, when market prices fell below the loan rates, a large number of producers turned to the program as a source of income. For 1998 crops, the program provided $6.7 billion in loans. It also provided $3.7 billion for cash payments (as of September 22, 1999), up from $162 million in payments for 1997 crops. Payments grew to more than $15 billion for 1999 and 2000 crops combined. Although the Secretary of Agriculture has the authority to adjust county loan rates, USDA has generally not done so since 1995 because the demand for loans prior to 1998 was low. More recently, USDA did not want to lower loan rates during the current period of low crop prices. According to a USDA estimate, however, revising the marketing assistance loan rate for the 1999 crop of wheat, corn, and other feed grains to better reflect current market conditions would have reduced outlays for marketing loan gains and loan deficiency payments by about $900 million.

To ensure proper controls over program costs, the Congress could direct the Secretary of Agriculture to annually adjust county loan rates for wheat, corn, other feed grains, and oilseeds to accurately reflect current market conditions. For example, in 1999, the Secretary was authorized to lower the marketing assistance loan rate for corn by about 5 percent. If the Congress had directed the Secretary to adjust the rates in 1999, USDA estimated that savings of $900 million would have occurred. Although future savings cannot be determined until final crop year prices are known, CBO agrees that savings can accrue through more timely adjustments.

Related GAO Product

Farm Programs: Changes to the Marketing Assistance Loan Program Have Had Little Impact on Payments (GAO-01-964, Sept. 28, 2001).

Farm Programs: Information on Recipients of Federal Payments (GAO-01-606, June 15, 2001).

U.S. Department of Agriculture: Marketing Assistance Loan Program Should Better Reflect Market Conditions (GAO/RCED-00-9, Nov. 23, 1999).

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370 Commerce and Housing Credit

Recapture Interest on Rural Housing Loans
Require Self-Financing of Mission Oversight by Fannie Mae and Freddie Mac
Reduce FHA's Insurance Coverage
Merging USDA and HUD Single-Family Insured Lending Programs and Multifamily Portfolio Management Programs
Consolidate Homeless Assistance Programs

Recapture Interest on Rural Housing Loans

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Financial Services (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	Rural Housing Insurance Fund (12-2081)
Spending type	Direct
Budget subfunction	371/Mortgage credit
Framework theme	Redefine beneficiaries

The Housing Act of 1949, as amended, requires the USDA's Rural Housing Service (RHS) to recapture a portion of the subsidy provided over the life of direct housing loans it makes when the borrower sells or vacates a property. The rationale being that because taxpayers paid a portion of the mortgage, they are entitled to a portion of the property's appreciation.

Because recapture is not mandated when homes are refinanced, RHS' policy allows borrowers who pay off direct RHS loans but continue to occupy the properties to defer the payments for recapturing the subsidies. As of July 31, 1999, RHS' records showed that about $140 million was owed by borrowers who had refinanced their mortgages but continued to occupy the properties. RHS does not charge interest on the amounts owed by these borrowers.

Legislative changes could be made to allow RHS to charge market rate interest on recapture amounts owed by borrowers to help recoup the government's administrative and borrowing costs. CBO's estimate of the savings for this option is presented on a net present-value basis as required by the Federal Credit Reform Act of 1990. Actual savings could differ depending on how this proposal would affect the rate at which homes are sold.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 funding level					
Budget authority	45	0	0	0	0
Outlays	45	0	0	0	0

Source: Congressional Budget Office.

Related GAO Product

Rural Housing Programs: Opportunities Exist for Cost Savings and Management Improvement (GAO/RCED-96-11, Nov. 16, 1995).

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Require Self-Financing of Mission Oversight by Fannie Mae and Freddie Mac

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Financial Services (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Housing and Urban Development
Accounts	Office of Federal Housing Enterprise Oversight, Salaries and Expenses (86-5272)
Spending type	Direct
Budget subfunction	371/Mortgage credit
Framework theme	Redefine beneficiaries

The Congress established and chartered the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) as government-sponsored enterprises. These enterprises are privately-owned corporations chartered to enhance the availability of mortgage credit across the nation. The Congress also charged the Department of Housing and Urban Development (HUD) with mission oversight responsibility for the enterprises, which includes ensuring that housing goals established by HUD result in enhanced housing opportunities for certain groups of borrowers.

Other federal organizations responsible for regulating government-sponsored enterprises are financed by assessments on the regulated entities. However, HUD's mission oversight expenditures are funded with taxpayer dollars from HUD's appropriations. Accordingly, HUD's capability to strengthen its enterprise housing mission oversight may be limited because resources that could be used for that purpose must compete with other priorities. For example, HUD's capacity to implement a program to verify housing goal data, which would necessarily involve a commitment of additional resources, may be limited.

Requiring Fannie Mae and Freddie Mac to reimburse HUD for mission oversight expenditures would not only result in the savings shown below but would also enable HUD to strengthen its oversight activities.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 funding level					
Budget authority	10	10	10	10	10
Outlays	10	10	10	10	10

Source: Congressional Budget Office.

Related GAO Products

Federal Housing Enterprises: HUD's Mission Oversight Needs to Be Strengthened (GAO/GGD-98-173, July 28, 1998).

Government-Sponsored Enterprises: Advantages and Disadvantages of Creating a Single Housing GSE Regulator (GAO/GGD-97-139, July 9, 1997).

Government-Sponsored Enterprises: A Framework for Limiting the Government's Exposure to Risks (GAO/GGD-91-90, May 22, 1991).

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Reduce FHA's Insurance Coverage

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Financial Services (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Housing and Urban Development
Account	FHA-Mutual Mortgage Insurance Fund (86-0183)
Spending type	Discretionary/Direct
Budget subfunction	371/Mortgage credit
Framework theme	Improve efficiency

Through its Federal Housing Administration (FHA), the Department of Housing and Urban Development (HUD) insures private lenders against nearly all losses resulting from foreclosures on single-family homes insured under its Mutual Mortgage Insurance Fund. The Department of Veterans Affairs (VA) also operates a single-family mortgage guaranty program. However, unlike FHA, VA covers only 25 to 50 percent of the original loan amount against losses incurred when borrowers default on loans, leaving lenders responsible for any remaining losses.

In May 1997, GAO reported that reducing FHA's insurance coverage to the level permitted for VA home loans would likely reduce the Fund's exposure to financial losses, thereby improving its financial health. As a result, the Fund's ability to maintain financial self-sufficiency in an uncertain future would be enhanced. For example, if insurance coverage on FHA's 1995 loans were reduced to VA's levels and a 14 percent volume reduction in lending was assumed, GAO estimated that the economic value of the loans would increase by $52 million to $79 million. Economic value provides an estimate of the profitability of FHA loans, which is important because estimated increases in economic value due to legislative changes allow additional mandatory spending authorizations to be made, other revenues to be reduced, or projected savings in the federal budget to be realized. Reducing FHA's insurance coverage would likely improve the financial health of the fund because the reduction in claim payments resulting from lowered insurance coverage would more than offset the decrease in premium income resulting from reduced lending volume.

Legislative changes could be made to reduce FHA's insurance coverage. Savings under this option would depend on future economic conditions, the volume of loans made, how higher risk and lower risk borrowers would be identified for exclusion from the program, and whether some losses may be shifted from FHA to the Government National Mortgage Association. In addition, reducing FHA's insurance coverage does pose trade-offs affecting lenders, borrowers, and FHA's role, such as diminishing the federal role in stabilizing markets. Low-income, first-time, and minority home buyers and those individuals purchasing older homes are most likely to experience greater difficulty in obtaining a home mortgage.

CBO did not provide a savings estimate for this option because the amount of potential savings would depend on the reaction of lenders and the resulting demand for FHA's products.

Related GAO Product

Homeownership: Potential Effects of Reducing FHA's Insurance Coverage for Home Mortgages (GAO/RCED-97-93, May 1, 1997).

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Merging USDA and HUD Single-Family Insured Lending Programs and Multifamily Portfolio Management Programs

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Financial Services (House)
Appropriations subcommittees	Agriculture, Rural Development, FDA and Related Agencies; VA, HUD and Independent Agencies (House) Agriculture, Rural Development and Related Agencies; VA, HUD, and Independent Agencies (Senate)
Primary agency	Department of Agriculture Department of Housing and Urban Development
Account	Multiple
Spending type	Direct/Discretionary
Budget subfunction	371/Mortgage Credit
Framework theme	Improve efficiency

USDA, primarily through its Rural Housing Service (RHS), has jurisdiction over most federal rural housing programs. HUD, primarily through its Federal Housing Administration (FHA), has jurisdiction over the major nationwide federal housing programs. As the distinctions between rural and urban life have blurred and federal budgets have tightened, the need for the separate rural housing programs, first created in the mid-1930s to stimulate the rural economy and assist needy rural families, is questionable.

Similarities exist between the RHS and FHA programs for delivering rural housing, and efficiencies could be achieved by merging the two programs. For instance, RHS' single-family guaranteed loan program and FHA's single-family insured loan program both primarily target low- and moderate-income households, use the same qualifying ratios, and operate in the same markets. Even though RHS' program offers more attractive terms for the borrower and is available only in rural areas, whereas FHA's program is available nationwide, both programs could be offered through the same network of lenders. Adapting each one's best practices for use by the other and eliminating inconsistencies in the rules applicable to private owners under the current programs would improve the efficiency with which the federal government delivers rural housing programs.

As we recently reported, to optimize the federal role in rural housing, the Congress may wish to consider requiring USDA and HUD to examine the benefits and costs of merging those programs that serve similar markets and provide similar products. As a first step, the Congress could consider requiring RHS and HUD to explore merging their single-family insured lending programs and multifamily portfolio management programs, taking advantage of the best practices of each and ensuring that targeted populations are not adversely affected. CBO cannot estimate savings for this option without a more specific proposal.

Related GAO Product

Rural Housing: Options for Optimizing the Federal Role in Rural Housing Development (GAO/RCED-00-241, Sept. 15, 2000).

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Consolidate Homeless Assistance Programs

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Financial Services (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Housing and Urban Development
Accounts	Multiple
Spending type	Direct/Discretionary
Budget subfunctions	Multiple
Framework theme	Improve efficiency

In 1987, the Congress passed the Stewart B. McKinney Act (P.L. 100-77) to provide a comprehensive federal response to address the multiple needs of homeless people. The act encompassed both existing and new programs, including those providing emergency food and shelter, those offering long-term housing and supportive services, and those designed to demonstrate effective approaches for providing homeless people with services. Over the years, some of the original McKinney programs have been consolidated or eliminated, and some new programs have been added. Today homeless people receive assistance through these programs as well as other federal programs that are not authorized under the McKinney Act but are nevertheless specifically targeted to serve the homeless population. In February 1999, we reported that seven federal agencies administer 16 programs that are targeted to serve the homeless population. In fiscal year 1997, these agencies obligated over $1.2 billion for homeless assistance programs, and the programs administered by the Department of Housing and Urban Development (HUD) accounted for about 70 percent of this total.

While these federal programs offer a wide range of services to the homeless population, some of these services appear similar. For example, food and nutrition services can be provided to homeless people through eight different programs administered by five different agencies. Moreover, our work at the state and local level has found that state and local government officials generally believe that the federal government has not done a good job of coordinating its various homeless assistance programs. This

perceived lack of coordination could adversely affect the ability of states and localities to integrate their own programs. Also, we recently reported that, because different homeless assistance programs have varying sets of eligibility and funding requirements, they can cause coordination difficulties for the federal agencies administering them as well as administrative and coordination burdens for the states and communities that have to apply for and use these funds.

Congress may wish to consider consolidating all homeless assistance programs under HUD because HUD (1) has taken a leadership role in the area of homelessness, (2) has developed a well-respected approach for delivering homeless assistance programs called the Continuum of Care, and (3) is currently responsible for administering 70 percent of the funds for four key programs targeted to the homeless. Consolidating all of the homeless assistance programs under HUD should result in administrative and operational efficiencies at the federal level as well as reduce the administrative and coordination burdens of state and local governments. However, without a specific legislative proposal, CBO is unable to estimate the potential savings for this option.

Related GAO Products

Homelessness: Consolidating HUD's McKinney Programs (GAO/T-RCED-00-187, May 23, 2000).

Homelessness: State and Local Efforts to Integrate and Evaluate Homeless Assistance Programs (GAO/RCED-99-178, June 29, 1999).

Homelessness: Coordination and Evaluation of Programs Are Essential (GAO/RCED-99-49, Feb. 26, 1999).

Homelessness: McKinney Act Programs Provide Assistance but Are Not Designed to Be the Solution (GAO/RCED-94-37, May 31, 1994).

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400 Transportation

Eliminate the Pulsed Fast Neutron Analysis Inspection System
Restructure Amtrak to Reduce or Eliminate Federal Subsidies
Eliminate Cargo Preference Laws to Reduce Federal Transportation Costs
Increase Aircraft Registration Fees to Recover Actual Costs
Improve Department of Transportation's Oversight of Its University Research
Apply Cost-Benefit Analysis to Replacement Plans for Airport Surveillance Radars
Close, Consolidate, or Privatize Some Coast Guard Operating and Training Facilities
Convert Some Support Officer Positions to Civilian Status

Eliminate the Pulsed Fast Neutron Analysis Inspection System

Authorizing committees	Multiple
Appropriations subcommittees	Multiple
Primary agency	Multiple
Account	FAA—Research, Engineering and Development (69-8108-07- 402)
Spending type	Discretionary
Budget subfunction	402/Air Transportation
Framework theme	Reassess objectives

One type of technology under development for detecting explosives and narcotics is a pulsed fast neutron analysis (PFNA) inspection system. PFNA is designed to directly and automatically detect and measure the presence of specific materials (e.g., cocaine) by exposing their constituent chemical elements to short bursts of subatomic particles called neutrons. As reported in our April 1999 report, U.S. Customs Service, Department of Defense (DOD), and Federal Aviation Administration (FAA) officials stated they do not believe that the current PFNA system would meet their operational requirements because it was too expensive (at least $10 million per unit to acquire) and too large for operational use in most ports of entry or other sites. FAA currently has a PFNA development program and estimates that completing a PFNA field test at an airport could occur as late as 2005 and cost about $40 million. Customs has made a commitment to conduct a controlled operational test of PFNA if the Congress provides funding of $10 million. DOD is no longer involved in PFNA testing and acquisition.

If the Congress chose to eliminate PFNA—a system that the agencies do not want—the Congressional Budget Office states that the following savings would result for FAA. Because Customs did not receive specific appropriations for PFNA, there would be no savings for Customs.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 funding level					
Budget authority	5	5	5	6	6
Outlays	3	5	5	5	6

Source: Congressional Budget Office.

Related GAO Product

Terrorism and Drug Trafficking: Testing Status and Views on Operational Viability of Pulsed Fast Neutron Analysis Technology (GAO/GGD-99-54, Apr. 13, 1999).

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Restructure Amtrak to Reduce or Eliminate Federal Subsidies

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Transportation (Senate and House)
Primary agency	National Railroad Passenger Corporation
Account	Multiple
Spending type	Discretionary
Budget subfunction	401/Ground Transportation
Framework theme	Reassess objectives

The National Railroad Passenger Corporation (Amtrak) is the operator of the nation's intercity passenger rail service. As a private corporation, it operated trains in 45 states, serving about 22 million riders in 2000 (about 60,000 per day). Like major national intercity passenger rail systems outside the United States, Amtrak receives government support. Since Amtrak's creation in 1970, the federal government has provided nearly $24 billion in operating and capital assistance to Amtrak. In 2000, the railroad lost $944 million (exclusive of federal and state payments). In 1994, at the request of the administration, and later at the direction of the Congress, Amtrak pledged to eliminate the need for federal operating subsidies by the end of 2002.

Amtrak has made relatively little progress in reducing its need for federal operating subsidies. For example, in fiscal year 2000, Amtrak reduced its need for operating subsidies by $5 million, substantially less than its plan for reducing the need for operating subsidies by $114 million for the year. Overall, in the past 6 years (fiscal years 1995 through 2000), Amtrak has reduced its need for operating subsidies by only $83 million. It must make an addition $281 million in progress in the next 2 years (2001 and 2002) to achieve the goal of being free of operating subsidies. Given its lack of overall progress, it will be difficult for Amtrak to eliminate the need for federal operating subsidies by the end of 2002.

The Amtrak Reform and Accountability Act of 1997 generally prohibits Amtrak from using federal funds for operating expenses after 2002. If Amtrak is not operationally self-sufficient by then, the act provides for the Congress to consider restructuring the national passenger rail system and

liquidating Amtrak. Several options are available to the Congress. For instance, the Congress could retain intercity passenger rail in much the same form as it is today, which would likely require increased subsidies over current levels to meet both operating expenses and billions of dollars in unmet capital needs. The Congress could also restructure intercity passenger rail service by focusing on high-density corridors, which would most likely also require continued federal assistance. Alternatively, if Amtrak is liquidated and not replaced, then federal subsidies to it would be eliminated. Eliminating federal subsidies for Amtrak by the end of 2002 would have many effects. One effect, if Amtrak was not replaced, is that the public benefit of having intercity passenger rail as an alternative travel choice to air and highways would disappear. CBO estimates that the following savings could be achieved if the Amtrak subsidy is eliminated. CBO could not estimate whether savings might occur if Amtrak service is limited to high-density corridors until a specific proposal is identified.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 baseline					
Budget authority	633	646	659	672	685
Outlays	633	646	659	672	685

Source: Congressional Budget Office.

Related GAO Products

Intercity Passenger Rail: The Congress Faces Critical Decisions About the Role of and Funding for Intercity Passenger Rail Systems (GAO-01-820T, July 25, 2001).

High-Speed Rail Investment Act of 2001 (GAO-01-756R, June 25, 2001).

Intercity Passenger Rail: Amtrak Will Continue to Have Difficulty Controlling Its Costs and Meeting Capital Needs (GAO/RCED-00-138, May 31, 2000).

Intercity Passenger Rail: Issues Associated With a Possible Amtrak Liquidation (GAO/RCED-98-60, Mar. 2, 1998).

GAO Contact

John H. Anderson, Jr., (202) 512-2834

Eliminate Cargo Preference Laws to Reduce Federal Transportation Costs

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Multiple
Primary agency	Multiple
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	403/Water transportation
Framework theme	Reassess objectives

Cargo preference laws require that certain government-owned or financed cargo shipped internationally be carried on U.S.-flagged vessels. Cargo preference laws are intended to guarantee a minimum amount of business for the U.S.-flagged vessels. These vessels are required by law to be crewed by U.S. mariners, are generally required to be built in U.S. shipyards, and are encouraged to be maintained and repaired in U.S. shipyards. In addition, U.S.-flag carriers commit to providing capacity in times of national emergencies.

The effect of cargo preference laws has been mixed. These laws appear to have had a substantial impact on the U.S merchant marine industry by providing an incentive for vessels to remain in the U.S. fleet. However, because U.S.-flagged vessels often charge higher rates to transport cargo than foreign-flagged vessels, cargo preference laws increase the government's transportation costs. For fiscal years 1989 through 1993, four federal agencies—the Departments of Defense, Agriculture, Energy, and the Agency for International Development—were responsible for more than 99 percent of the government cargo subject to cargo preference laws. Cargo preference laws increased these federal agencies' transportation costs by an estimated $578 million per year in fiscal years 1989 through 1993 over the cost of using foreign-flagged vessels. If the laws were eliminated, the following savings could be achieved.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from CBO baseline					
Budget authority	400	427	517	536	549
Outlays	391	407	492	527	546

Source: Congressional Budget Office.

Related GAO Products

Management Reform: Implementation of the National Performance Review's Recommendations, (GAO/OCG-95-1, Dec. 5, 1994).

Maritime Industry: Cargo Preference Laws—Their Estimated Costs and Effects, (GAO/RCED-95-34, Nov. 30, 1994).

Cargo Preference: Effects of U.S. Export-Import Cargo Preference Laws on Exporters, (GAO/GGD-95-2BR, Oct. 31, 1994).

Cargo Preference Requirements: Objectives Not Significantly Advanced When Used in U.S. Food Aid Programs, (GAO/GGD-94-215, Sept. 29, 1994).

GAO Contact

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Increase Aircraft Registration Fees to Enable the Federal Aviation Administration to Recover Actual Costs

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Primary agency	Department of Transportation
Spending type	Direct
Framework theme	Redefine beneficiaries

In 1977, the Congress amended the Federal Aviation Act and identified three categories of aircraft owners—U.S. citizens, resident aliens, and U.S.-based foreign companies—that may register aircraft in the United States. To register an aircraft, an eligible owner submits a $5 fee. As of the end of fiscal year 1999, 355,518 aircraft were registered in the United States. In fiscal year 1999, 54,329 certificate registrations were issued.

In 1993 we reported that the Federal Aviation Administration (FAA) was not fully recovering the cost of processing aircraft registration applications and estimated that, by not increasing fees since 1968 to recover costs, FAA had foregone about $6.5 million in additional revenue. To recover the costs of services provided to aircraft registrants, we have recommended that FAA increase its aircraft registration fees to more accurately reflect actual costs. FAA plans to coordinate aircraft registration changes with the Drug Enforcement Agency and the U.S. Customs Service by the end of 2004. If those two agencies approve the proposed changes, FAA will prepare legislation for congressional approval for a rate increase for registration fees. FAA plans to complete changes to its aircraft registration system by mid-2005.

If the FAA recovers the full cost of processing aircraft registration applications, the following additional revenue could be achieved.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Added Collections	0	0	0	5	5

Source: Congressional Budget Office.

Related GAO Product

Aviation Safety: Unresolved Issues Involving U.S.-Registered Aircraft (GAO/RCED-93-135, June 18, 1993).

GAO Contact

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Improve Department of Transportation's Oversight of Its University Research

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Transportation (Senate and House)
Primary agency	Department of Transportation
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	401/402/403/407/Ground, Air, Water, and Other Transportation
Framework theme	Improve efficiency

The Department of Transportation (DOT) conducts research at universities to enhance safety, mobility, environmental quality, efficiency, and economic growth in the nation's transportation system. The results of DOT's research programs include prototypes of systems, new operating procedures, data used to focus policy decisions, and regulations. DOT and each of its operating administrations have several offices responsible for overseeing this research to ensure that the awards' objectives are met and the costs are appropriate.

While DOT's spending on research at universities has grown significantly from fiscal years 1988 through 1993, DOT does not have an integrated plan to ensure that research is needed to meet departmental goals. In addition, a lack of oversight on some university awards led to overcharges of almost $450,000 and unpaid cost-sharing totaling $3 million in a sample of awards that GAO reviewed in detail. More effective planning and management of the research program could reduce costs by limiting duplicate research and ensuring that recipients follow award guidelines on allowable costs and cost sharing.

As GAO recommended, DOT has completed the development of a departmentwide database to track the purpose and costs associated with each university research award. GAO also recommended that DOT evaluate the operating administrations' processes to ensure that they have adequate policies and procedures to carry out their responsibilities for monitoring awards. However, DOT has no plans to do so.

GAO findings of overcharges and unpaid cost sharing for a sample of grants suggest that the Congress could slow DOT's university research spending by reducing appropriations until improvements in necessary planning and management processes are made. CBO does not disagree that improved monitoring and oversight of DOT's university research can reduce outlays. However, savings from this option would depend on which among many small accounts are reduced and the amounts of these reductions.

Related GAO Product

Department of Transportation: University Research Activities Need Greater Oversight (GAO/RCED-94-175, May 13, 1994).

GAO Contact

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Apply Cost-Benefit Analysis to Replacement Plans for Airport Surveillance Radars

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Transportation (Senate and House)
Primary agency	Department of Transportation
Accounts	Facilities and Equipment (69-8107)
Spending type	Discretionary
Budget subfunction	402/Air transportation
Framework theme	Improve efficiency

Before installing an airport surveillance radar (ASR), FAA typically conducts benefit-cost studies to determine whether it will be cost effective. In addition to the $5 million cost of the new radars, other costs may be incurred for auxiliary equipment and infrastructure modifications. Benefits of these improvements include travelers' time saved through potential reductions in aircraft delays and lives saved and injuries avoided through reduced risk of midair and terrain collisions. Because there is a direct correlation between projected air traffic operations and the potential benefits associated with radar installation, airports with higher air traffic projections would receive more benefit from a radar than those with lower projections.

FAA had planned to install technologically advanced ASR-11 radars to replace its model ASR-7 and ASR-8 radars, currently located at 101 airports, without applying its benefit-cost criteria. FAA's rationale for not applying its benefit-cost criteria to these 101 airports was its belief that discontinuing radar operations at airports that no longer qualify could lead to public perceptions that safety was being reduced, even if safety was not compromised. However, some of these airports may no longer qualify for a radar based on FAA's benefit-cost criteria and 75 of them have less air traffic than an airport whose radar request FAA recently denied using its benefit-cost criteria. Furthermore, at some of these airports, the circumstances that originally justified a radar no longer exist.

GAO recommended that FAA apply its benefit-cost criteria to all 101 airports where it plans to replace the ASR-7 and ASR-8 radars and determine whether those airports had a continuing operational need for

radar. In response to GAO's recommendation, FAA asked it's regional offices to verify the operational need for radars at the 75 airports that had less traffic than the airport whose radar was recently denied. FAA determined that there continues to be an operational need for radars at all 75 airports. However, FAA does not plan to do the benefit/cost studies that GAO recommended, does not plan to decommission any of the radars, and plans to proceed with replacing the old radars with the newer radars at all airports. We continue to believe that savings may result if FAA were to perform the benefit/cost studies at the 101 airports.

Related GAO Product

Air Traffic Control: Surveillance Radar Request for the Cherry Capital Airport (GAO/RCED-98-118, May 28, 1998).

GAO Contact

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Close, Consolidate, or Privatize Some Coast Guard Operating and Training Facilities

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Transportation (Senate and House)
Primary agency	Department of Transportation
Accounts	Operating Expenses (69-0201)
Spending type	Discretionary
Budget subfunction	Multiple
Framework theme	Improve efficiency

The Coast Guard could achieve budget savings by downsizing its facilities. The Coast Guard abandoned plans to close its Curtis Bay facility in 1988, when GAO reported that it lacked supporting data. While the cost effectiveness of this facility has been questioned, the Coast Guard has not conducted a detailed study to compare the facility's cost effectiveness with that of commercial shipyards. In fiscal year 1996, GAO testified that the Coast Guard could save $6 million by closing or consolidating over 20 small boat stations. Also in 1996, GAO recommended that the Coast Guard consider other alternatives—such as privatization—to operate its vessel traffic service centers, which cost $20.2 million to operate in fiscal year 1999. Furthermore, in fiscal 1995, GAO recommended that the Coast Guard close one of its large training centers in Petaluma, California—at a savings of $9 million annually. The Coast Guard agreed that this may be possible but did not close it largely because of public opposition.

Given the serious budget constraints the Coast Guard now faces, it will need to achieve significant budgetary savings to offset the increased budgetary needs of the future. Closing, consolidating, or privatizing training and operating facilities, including the Curtis Bay facility, 20 small boat stations, the vessel traffic service centers, and one of its training centers in Petaluma, California, would help the Coast Guard to achieve these required savings. While CBO agrees that closing, consolidating, or privatizing Coast Guard facilities could yield savings, it cannot develop an estimate until specific proposals are identified.

Related GAO Products

Coast Guard: Budget Challenges for 2001 and Beyond (GAO/T-RCED-00-103, Mar. 15, 2000).

Coast Guard: Review of Administrative and Support Functions (GAO/RCED-99-62R, Mar. 10, 1999).

Coast Guard: Challenges for Addressing Budget Constraints (GAO/RCED-97-110, May 14, 1997).

Marine Safety: Coast Guard Should Address Alternatives as It Proceeds With VTS 2000 (GAO/RCED-96-83, Apr. 22, 1996).

Coast Guard: Issues Related to the Fiscal Year 1996 Budget Request (GAO/T-RCED-95-130, Mar. 13, 1995).

Coast Guard: Improved Process Exists to Evaluate Changes to Small Boat Stations (GAO/RCED-94-147, Apr. 1, 1994).

GAO Contact

John H. Anderson, Jr., (202) 512-2834

Convert Some Support Officer Positions to Civilian Status

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Transportation (Senate and House)
Primary agency	Department of Transportation
Account	Operating Expenses (69-0201)
Spending type	Discretionary
Budget subfunction	403/Water Transportation
Framework theme	Improve efficiency

The Coast Guard uses officers in operational positions--to command boats, ships, and aircraft that can be deployed during time of war--and in support positions, such as personnel, public affairs, data processing, and financial management. Military standard personnel costs are paid out of the Coast Guard's discretionary budget and include all pay and allowances, permanent change of station costs, training costs, and active-duty medical costs associated with each pay grade. Certain allowances—housing and subsistence—are provided to military personnel tax-free. Additionally, military retirement costs are funded by an annual permanent appropriation separate from the Coast Guard's discretionary budget. Civilian standard personnel costs are also paid out of the Coast Guard's discretionary budget and include basic, locality, overtime, and special pays as well as the costs associated with permanent change of station, training, health insurance, life insurance, and the accrued cost of civilian retirement.

Of 5,760 commissioned officer positions in the Coast Guard's workforce (as of the end of fiscal year 1999), GAO selectively evaluated nearly 1,000 in 75 units likely to have support positions. Of these positions, GAO found about 800 in which officers were performing duties that offered opportunities for conversion to civilian positions. Such positions include those in, among other things, personnel, public affairs, civil rights, and data processing. In comparing all of the relevant costs associated with military and civilian positions, GAO found that employing an active-duty commissioned officer in the positions we reviewed is, on average, 21 percent more costly than filling the same position with a comparable civilian employee. The cost differential is based on a comparison of average annual pay, benefits, and expenses associated with the Coast Guard's commissioned officers at

different military ranks and federal civilian employees at comparable civilian grades for fiscal year 1999.

From March 1, 2000 through July 31, 2001, the Coast Guard had converted 45 commissioned officer positions to civilian positions. Converting support positions currently filled by military officers to civilian status would reduce costs associated with delivering these services with no apparent impact on performance. By converting commissioned officer positions to civilian positions, savings would accrue to the federal government in the form of retirement savings, tax advantage savings, and savings to the Coast Guard's discretionary budget. CBO agrees that this option would lead to savings, but that those savings would primarily result from differences between military and civilian retirement plans. Consequently, the budgetary savings resulting from this shift would not begin until "new" civilian employees began to retire, which will occur after the 5-year projection period.

Related GAO Product

Coast Guard Workforce Mix: Phased-In Conversion of Some Support Officer Positions Would Produce Savings (GAO/RCED-00-60, Mar. 1, 2000).

GAO Contact

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450 Community and Regional Development

Limit Eligibility for Federal Emergency Management Agency Public Assistance

Eliminate the Flood Insurance Subsidy on Properties That Suffer the Greatest Flood Loss

Eliminate Flood Insurance for Certain Repeatedly Flooded Properties

Consolidate or Terminate the Department of Commerce's Trade Adjustment Assistance for Firms Program

Limit Eligibility for Federal Emergency Management Agency Public Assistance

Authorizing committees	Environment and Public Works (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	VA, HUD and Independent Agencies (Senate and House)
Primary agency	Federal Emergency Management Agency
Account	Disaster Relief Fund (58-0104)
Spending type	Discretionary
Budget subfunction	453/Disaster relief and insurance
Framework theme	Redefine beneficiaries

The Federal Emergency Management Agency's (FEMA) Public Assistance Program helps pay state and local governments' costs of repairing and replacing eligible public facilities and equipment damaged by natural disasters. Many private nonprofit organizations, such as schools, hospitals, and utilities, are also eligible for assistance. Since 1990, FEMA has expended over $27 billion in disaster assistance, over half of which was spent for public assistance projects such as repairs of roads, government buildings, utilities, and hospitals damaged in declared disasters.

A number of options identified by program officials in FEMA's 10 regional offices, if implemented, could reduce program costs. The agency has taken action to address some of these options. However, FEMA has not addressed some other identified options, stating that congressional direction would be needed for the agency to change policies. These include eliminating the eligibility for facilities not actively used to deliver government services, postdisaster beach renourishment, as well as increasing the damage threshold for replacing a facility.[10] In addition, program costs could be reduced by policy changes such as eliminating eligibility for all private nonprofit organizations—many of which are revenue-generating facilities such as utilities, hospitals, and universities—or eliminating funding for publicly owned recreational facilities (e.g., boat docks, piers, and golf courses) which generate portions of their operational revenue through user fees, rents, admission charges, or similar fees. CBO

[10]FEMA will now pay to replace rather than repair buildings if the repair costs would be more than 50 percent of the estimated replacement cost.

estimates that eliminating eligibility for all private nonprofit organizations would yield the following savings.

Five-Year Savings

Dollars in millions

	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 funding level					
Budget authority	60	60	60	60	60
Outlays	0	15	30	45	54

Source: Congressional Budget Office.

Related GAO Products

Disaster Assistance: Improvement Needed in Disaster Declaration Criteria and Eligibility Assurance Procedures (GAO-01-837, Aug. 31, 2001).

Disaster Assistance: Information on Federal Costs and Approaches for Reducing Them (GAO/T-RCED-98-139, Mar. 26, 1998).

Disaster Assistance: Improvements Needed in Determining Eligibility for Public Assistance (GAO/RCED-96-113, May 23, 1996).

Disaster Assistance: Improvements Needed in Determining Eligibility for Public Assistance (GAO/T-RCED-96-166, Apr. 30, 1996).

GAO Contact

JayEtta Z. Hecker, (202) 512-8984

Eliminate the Flood Insurance Subsidy on Properties That Suffer the Greatest Flood Loss

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Financial Services (House)
Appropriations subcommittees	VA, HUD and Independent Agencies (Senate and House)
Primary agency	Federal Emergency Management Agency
Account	National Flood Insurance Fund (58-4236)
Spending type	Mandatory
Budget subfunction	453/Disaster relief and insurance
Framework theme	Redefine beneficiaries

The National Flood Insurance Program is not actuarially sound because approximately 27 percent of the 4.3 million policies in force are subsidized. Federal Insurance Administration officials estimate that total premium income from subsidized policyholders is currently about $800 million less than it would be if these rates had been actuarially based and participation had remained the same. According to a Federal Insurance Administration official, if true actuarial rates were charged, insurance rates on currently subsidized policies would need to rise, on average, slightly more than twofold (to an annual average premium of about $1,500 to $1,600). Significant rate increases for subsidized policies, including charging actuarial rates, would likely cause some owners of properties built before the publication of the Flood Insurance Rate Map to cancel their flood insurance. However, the ultimate cost or savings to the federal government would depend on the actions of property owners. If these property owners, who suffer the greatest flood loss, canceled their insurance and subsequently suffered losses due to future floods, they could apply for low-interest loans from the Small Business Administration or grants from FEMA, which would increase the overall cost to the federal government.

FEMA received a May 1999 contractor's study concerning the economic effects of eliminating subsidized rates, and in June 2000 the agency transmitted the study to the Congress with recommendations for reducing the subsidy. According to FEMA, it is analyzing the impacts of specific alternatives for carrying out the recommendations, as well as working with stakeholders to refine and develop a comprehensive strategy to help it decide how to implement the study's recommendations. Some of the

recommendations for reducing the subsidy depend on legislative change. In light of the potential savings associated with addressing this issue, FEMA should develop and advance legislative options for eliminating the National Flood Insurance Program's subsidy for properties that are more likely to suffer losses.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Net increase in offsetting receipts					
Budget authority	0	0	0	0	0
Outlays (net increased receipts)	45	135	182	181	181

Source: Congressional Budget Office.

Related GAO Products

Flood Insurance: Information on Financial Aspects of the National Flood Insurance Program (GAO/T-RCED-00-23, Oct. 27, 1999).

Flood Insurance: Information on Financial Aspects of the National Flood Insurance Program (GAO/T-RCED-99-280, Aug. 25, 1999).

Flood Insurance: Financial Resources May Not Be Sufficient to Meet Future Expected Losses (GAO/RCED-94-80, Mar. 21, 1994).

GAO Contact

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Eliminate Flood Insurance for Certain Repeatedly Flooded Properties

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Financial Services (House)
Appropriations subcommittees	VA, HUD and Independent Agencies (Senate and House)
Primary agency	Federal Emergency Management Agency
Account	National Flood Insurance Fund (58-4236)
Spending type	Mandatory
Budget subfunction	453/Disaster relief and insurance
Framework theme	Redefine beneficiaries

Repetitive flood losses is one of the major factors contributing to the financial difficulties facing the National Flood Insurance Program. A repetitive-loss property is one that has two or more losses greater than $1,000 each within any 10-year period. Approximately 45,000 buildings currently insured under the National Flood Insurance Program have been flooded on more than one occasion and have received flood insurance claims payments of $1,000 or more for each loss. These repetitive losses account for about 38 percent of all program claims historically (currently about $200 million annually) even though repetitive-loss structures make up a very small portion of the total number of insured properties—at any one time, from 1 to 2 percent. The cost of these multiple-loss properties over the years to the program has been $3.8 billion. Under its repetitive-loss strategy, the Federal Insurance Administration intends to target for mitigation the most flood-prone repetitive-loss properties, such as those that are currently insured and have had four or more losses, by acquiring, relocating, or elevating them. FEMA reports NFIP paid out over $800 million in claims for the most vulnerable repetitive loss properties (about 10,000) over the last 21 years, or $1.3 billion when adjusted for today's dollars.

One option that would increase savings would be for FEMA to consider eliminating flood insurance for certain repeatedly flooded properties. In its fiscal year 2002 budget proposal, FEMA requested to transfer $20 million in fees from the National Flood Insurance Program to increase the number of buyouts of properties that suffer repetitive losses.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 funding level					
Budget authority	0	0	0	0	0
Outlays	60	64	69	75	80

Note: Savings estimate assumes that coverage would be denied after the fourth loss of at least 1,000 dollars in any 10-year period.

Source: Congressional Budget Office.

Related GAO Products

Flood Insurance: Information on Financial Aspects of the National Flood Insurance Program (GAO/T-RCED-00-23, Oct. 27, 1999).

Flood Insurance: Information on Financial Aspects of the National Flood Insurance Program (GAO/T-RCED-99-280, Aug. 25, 1999).

GAO Contact

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Consolidate or Terminate the Department of Commerce's Trade Adjustment Assistance for Firms Program

Authorizing committees	Commerce, Science, and Transportation (Senate) Energy and Commerce (House)
Appropriations subcommittees	Commerce, Justice, State, and the Judiciary (Senate and House)
Primary agency	Department of Commerce
Accounts	Economic Development Assistance Programs (13-2050)
Spending type	Discretionary
Budget subfunction	452/Area and Regional Development
Framework theme	Reassess objectives

The Trade Adjustment Assistance (TAA) for firms program is administered by the Department of Commerce's Economic Development Administration. This $10.5 million program is designed to assist domestic firms that have been adversely affected by imports. Twelve regional centers help firms become certified for benefits, assess their economic viability, and develop business recovery plans.

For fiscal years 1995 through 1999, an average of 157 firms were annually certified as eligible for assistance and 127 (an average of 11 for each regional center) had certified recovery plans. During this period, however, most of the program funding—61 percent—was used to fund operational and administrative costs at the 12 regional centers, including helping firms become certified for assistance and developing firm-specific recovery plans. The remainder—an annual average of $3.8 million, or approximately 39 percent of the total—was used to fund direct technical assistance. The Economic Development Administration does not formally monitor and track the outcomes of the assistance provided by the regional centers. As a result, there is not sufficient data to systematically assess whether this program is helping firms adjust to import competition.

Given the low percentage of TAA for firms funds used to provide direct technical assistance and the lack of information on the impact of the program, the Congress may wish to consider several options for this program. First, the Congress may wish to have the Department of Commerce consolidate the regional centers and therefore reduce administrative and overhead costs. Another alternative would be to co-

locate the TAA centers with an existing program such as the Department of Commerce's Manufacturing Extension Partnership, reducing overhead and perhaps providing some synergy with other government efforts to assist firms. If the Congress chooses to terminate the TAA for firms program, CBO estimates that the resulting savings would occur.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from 2002 funding level					
Budget authority	11	11	11	11	12
Outlays	1	3	5	8	11

Source: Congressional Budget Office.

Related GAO Product

Trade Adjustment Assistance: Impact of Federal Assistance to Firms Is Unclear (GAO-01-12, Dec. 15, 2000).

GAO Contact

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500 Education, Training, Employment, and Social Services

Consolidate Student Aid Programs

Consolidate Student Aid Programs

Authorizing committees	Health, Education, Labor, and Pensions (Senate) Education and the Workforce (House)
Appropriations subcommittees	Labor, Health and Human Services, Education, and Related Agencies (Senate and House)
Primary agency	Department of Education
Account	Higher Education (91-0201)
Spending type	Discretionary/Direct
Budget subfunction	502/Higher education
Framework theme	Improve efficiency

The Department of Education provides loans and grants to students to help finance their higher education. The federal government's role in supporting higher education is contributing about 50 percent of its education budget to postsecondary education programs and activities, most of which are for student financial aid. The largest programs provide federally insured loans and Pell grants for students. The Federal Family Education Loan (FFEL) and Federal Direct Loan (FDL) programs compose the largest source of federal student financial aid. The FFEL and FDL programs are entitlements, but Pell grants, the largest federal grant-in-aid program, are awarded to the most needy eligible students, dependent on the availability of appropriated funds.

Although the student loan and Pell grant programs provide the majority of federal financial aid to students for postsecondary education, another 14 smaller programs are targeted to specific segments of the postsecondary school population. The programs fund remedial and support services for prospective students from disadvantaged families, programs to enhance the labor pool in designated specialties, grants to students for volunteer activities, and grants to women and minorities who are underrepresented in graduate education.

These 14 programs, which were funded at $1.8 billion in fiscal year 2002, could be candidates for consolidation. For example, programs directed at attracting minority and disadvantaged students could be consolidated into one program. Or a certain amount of funds could be provided to states

through a single grant, in lieu of several smaller grants, to cover some or all of the purposes of several small grant programs.

In anticipation of the administrative savings that could be achieved through consolidation, funding for these programs could be reduced 10 percent each year as part of the consolidation. Since all savings achieved through consolidation would be administrative in nature, we assume that there would be no adverse impact on students' access to postsecondary education—a principal object of the enabling legislation, the Higher Education Act of 1965, as amended.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 funding level					
Budget authority	184	188	192	196	200
Outlays	30	141	173	191	195

Source: Congressional Budget Office.

Related GAO Products

Department of Education: Information on Consolidation Opportunities and Student Aid (GAO/T-HEHS-95-130, Apr. 6, 1995).

Department of Education: Opportunities to Realize Savings (GAO/T-HEHS-95-56, Jan.18, 1995).

GAO Contact

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550 Health

Improve Fairness of Medicaid Matching Formula
Charge Beneficiaries for Food Inspection Costs
Implement Risk-Based Meat and Poultry Inspections at USDA
Prevent States from Using Illusory Approaches to Shift Medicaid Program Costs to the Federal Government
Create a Uniform Federal Mechanism for Food Safety
Convert Public Health Service Commissioned Corps Officers to Civilian Status
Control Provider Enrollment Fraud in Medicaid

Improve Fairness of Medicaid Matching Formula

Authorizing committees	Finance (Senate) Energy and Commerce (House)
Appropriations subcommittees	Labor, Health and Human Services, Education and Related Agencies (Senate) Labor, Health and Human Services and Education (House)
Primary agency	Department of Health and Human Services
Account	Grant to States for Medicaid (75-0512)
Spending type	Direct
Budget subfunction	551/Health care services
Framework theme	Reassess objectives

The Medicaid program provides medical assistance to low-income, aged, blind, or disabled individuals. The federal government and the states share the financing of the program through an open-ended matching grant whereby federal outlays rise with the cost and use of Medicaid services. The federal share of the program costs varies inversely with state per capita income. Consequently, high-income states pay a larger share of the benefits than low-income states. By law, the federal share can be no less than 50 percent and no more than 83 percent.

Since 1986, we have issued numerous reports and testimonies that identify ways in which the fairness of federal grant formulas could be improved. With respect to Medicaid, we believe that the fairness of the matching formula in the open-ended program could be improved by replacing the per capita income factor with four factors—the number of people living below the official poverty line, the total taxable resources of the state, cost differences associated with the demographic composition of state caseloads, and differences in health care costs across states—and by reducing the minimum federal share to 40 percent. These changes could reduce federal reimbursements by reducing the federal share in states with the most generous benefits, the fewest low-income people in need, lower costs, and greater ability to fund benefits from state resources. These changes could redirect federal funding to states with the highest concentration of people in poverty and the least capability of funding these needs from state resources.

To illustrate the savings that could be achieved from changes in the Medicaid formula, CBO estimates that, if the minimum federal share were reduced to 40 percent, the following savings could be achieved.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the CBO baseline					
Budget authority	7,280	7,910	8,670	9,510	10,410
Outlays	7,280	7,910	8,670	9,510	10,410

Note: CBO assumes that the FMAP for the District of Columbia would remain at 70 percent.

Source: Congressional Budget Office.

Related GAO Products

Medicaid Formula: Effects of Proposed Formula on Federal Shares of State Spending (GAO/HEHS-99-29R, Feb. 19, 1999).

Medicaid Matching Formula: Effects of Need Indicators on New York's Funding (GAO/HEHS-97-152R, June 9, 1997).

Medicaid: Matching Formula's Performance and Potential Modifications (GAO/T-HEHS-95-226, July 27, 1995).

Medicaid Formula: Fairness Could Be Improved (GAO/T-HRD-91-5, Dec. 7, 1990).

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Charge Beneficiaries for Food Inspection Costs

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House) Energy and Commerce (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 subfunction	554/Consumer and occupational health and safety
Framework theme	Redefine beneficiaries

User fees—charges individuals or firms pay for services they receive from the federal government—are not new but have begun to play an increasingly important role in financing federal programs, particularly since the Balanced Budget Act of 1985. In general, federal food inspection agencies have charged user fees only to beneficiaries of premarket reviews, such as the grading of grain and other commodities for quality. Federal food inspection agencies generally do not charge user fees or fully cover the cost of services provided for (1) compliance inspections of meat, poultry, domestic foods, and processing facilities to ensure adherence to safety regulations, (2) import inspections and export certifications to ensure that food products in international trade meet specified standards, and (3) standards setting and other support services essential to these functions. OMB Circular A-25, *User Charges*, states that user fees should be charged to cover the full cost of federal services when the service recipient receives special benefits beyond those received by the general public. USDA's Food Safety and Inspection Service (FSIS) provides a special benefit to meat and poultry slaughter and processing plants that incidentally benefits the general public.

Historically, federal food inspection agencies recover through user fees only about $400 million of the $1.6 billion they spend annually to inspect, test, grade, and approve agricultural commodities and products. Although

the 2002 budget did not include funds to cover additional expenses for these activities, federal appropriations have traditionally funded the remaining 75 percent of the agencies' expenses. Overall, federal food inspection agencies could recover an additional $700 million each year from the beneficiaries of food-related inspection and testing services through user fees. For example, CBO estimates, based on the 2001 budget request, that the following savings could be achieved if meat and poultry inspections were funded through user fees instead of appropriations.

Five-Year Savings

Dollars in millions

	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 funding level					
Budget authority	352	731	758	786	815
Outlays	352	731	758	786	815

Note: The CBO estimate, based on the 2001 budget, assumed the policy would become effective October 1, 2001. This analysis excludes egg inspection costs, Grants-to-States, and Special assistance for State Programs from the user fee program. This estimate assumes that only 50 percent of fees will be collected in the first year because of industry opposition and administrative delays.

Source: Congressional Budget Office.

Related GAO Products

Food Safety: Opportunities to Redirect Federal Resources and Funds Can Enhance Effectiveness (GAO/RCED-98-224, Aug. 6, 1998).

Food-Related Services: Opportunities Exist to Recover Costs by Charging Beneficiaries (GAO/RCED-97-57, Mar. 20, 1997).

Food Safety and Quality: Uniform Risk-based Inspection System Needed to Ensure Safe Food Supply (GAO/RCED-92-152, June 26, 1992).

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Implement Risk-Based Meat and Poultry Inspections at USDA

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	Food Safety and Inspection Service
Spending type	Discretionary
Budget Subfunction	554/Consumer and occupational health and safety
Framework theme	Redefine beneficiaries

Foodborne illness in the United States is extensive and expensive. Foodborne diseases cause about 76 million illnesses, 325,000 hospitalizations, and 5,000 deaths annually. In terms of medical costs and productivity losses, illness from just the five principal foodborne pathogens alone costs the nation about $7 billion annually, according to USDA's estimates.

USDA's meat and poultry inspection system does not efficiently and effectively use its resources to protect the public from foodborne illness. USDA's system is hampered by inflexible legal requirements and relies on outdated, labor-intensive inspection methods. Under current law, each of the over 8 billion livestock and bird carcasses slaughtered annually must be inspected. Further, USDA's Food Safety and Inspection Service (FSIS) states that current law requires it to inspect each of the approximately 6,000 processing plants at least once during each operating shift. While these inspections consume most of FSIS's budget ($712 million and 9,700 staff-years), they are unable to detect microbial contamination, such as listeria, E. coli, and salmonella. While USDA has increased its microbial testing, it has not been successful in implementing regulatory changes in inspection practices—inspectors still rely on their sense of sight, smell, and touch to make judgments about disease conditions, contamination, and sanitation.

Legislative revisions could allow FSIS to emphasize risk-based inspections. Much of the funding used to fulfill current meat and poultry inspection activities could be redirected to support more effective food safety initiatives, such as increasing the frequency of inspections at high-risk food plants. CBO agrees that this option could potentially yield savings, but cannot develop an estimate until specific proposals are identified.

Related GAO Products

Food Safety: Opportunities to Redirect Federal Resources and Funds Can Enhance Effectiveness (GAO/RCED-98-224, Aug. 6, 1998).

Food Safety: Risk-Based Inspections and Microbial Monitoring Needed for Meat and Poultry (GAO/RCED-94-192, Sept. 26, 1994).

Food Safety and Quality: Uniform Risk-based Inspection System Needed to Ensure Safe Food Supply (GAO/RCED-92-152, June 26, 1992).

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Prevent States from Using Illusory Approaches to Shift Medicaid Program Costs to the Federal Government

Authorizing committees	Finance (Senate) Energy and Commerce (House)
Appropriations subcommittees	Labor, Health and Human Services, Education and Related Agencies (Senate and House)
Primary agency	Department of Health and Human Services
Account	Grant to States for Medicaid (75-0512)
Spending type	Direct
Budget subfunction	551/Health care services
Framework theme	Redefine beneficiaries

Since 1993, we have reported on a number of state financing schemes that inappropriately shift Medicaid costs to the federal government. In an early report, we documented that Michigan, Texas, and Tennessee used illusory financing approaches to obtain about $800 million in federal Medicaid funds without effectively committing their share of matching funds. Under these approaches, facilities that received increased Medicaid payments from the states, in turn, paid the states almost as much as they received. Consequently, the states realized increased revenue that was used to reduce their state Medicaid contributions, fund other health care needs, and supplement general revenue funding. For the period from fiscal year 1991 to fiscal year 1995, Michigan alone reduced its share of Medicaid costs by almost $1.8 billion through financing partnerships with medical providers and local units of government. Our analysis of Michigan's transactions showed that even though legislation curtailed certain creative financing practices, the state was able to reduce its share of Medicaid costs at the expense of the federal government by $428 million through other mechanisms. We subsequently reported on similar schemes involving state psychiatric hospitals and local government facilities, such as county nursing homes.

The state schemes that involve excessive federal payments have been restricted by (1) the Omnibus Budget Reconciliation Act of 1993 that limits such payments to unreimbursed Medicaid and uninsured costs for state-owned facilities, (2) the Balanced Budget Act of 1997 that further limits Medicaid payments to state psychiatric hospitals, and (3) the Medicare, Medicaid, and State Children's Health Insurance Program

Benefits Improvement and Protection Act of 2000 (BIPA),[11] which mandated that the Health Care Financing Administration (HCFA) issue regulations to curtail financing schemes involving excessive payments to local government providers.[12]

Despite these legislative and regulatory restrictions, states continue to develop schemes to draw down federal Medicaid payments that grossly exceed costs. Moreover, the Centers for Medicare and Medicaid Services (formerly HCFA) do not verify that such moneys are used for the purposes for which they were obtained.

We believe that the Medicaid program should not allow states to benefit from illusory arrangements and that Medicaid funds should only be used to help cover the costs of medical care incurred by those medical facilities that provide care to Medicaid beneficiaries. We believe the Congress should continue its legislative efforts to minimize the likelihood that states can develop arrangements that claim excessive federal Medicaid payments and that inappropriately shift Medicaid costs to the federal government. Specifically, the Congress should consider legislation that would prohibit Medicaid payments that exceed costs to any government-owned facility.

Savings are difficult to estimate for this option because national data on these practices are not readily available. In addition, Medicaid spending is influenced by the use of waivers from federal requirements, which allows states to alter Medicaid financing formulas. Future requests and use of waivers by states are uncertain.

Related GAO Products

Medicaid: State Financing Schemes Again Drive Up Federal Payments (GAO/T-HEHS-00-193, Sept. 6, 2000).

Medicaid: Managed Care and Individual Hospital Limits for Disproportionate Share Hospital Payments (GAO/HEHS-98-73R, Jan. 28, 1998).

Medicaid: Disproportionate Share Payments to State Psychiatric Hospitals (GAO/HEHS-98-52, Jan. 23, 1998).

[11]P.L. 106-554.

[12]See 42 C.F.R. §§ 447.272; 447.304; 447.321.

Medicaid: Disproportionate Share Hospital Payments to Institutions for Mental Disease (GAO/HEHS-97-181R, July 15, 1997).

State Medicaid Financing Practices (GAO/HEHS-96-76R, Jan. 23, 1996).

Michigan Financing Arrangements (GAO/HEHS-95-146R, May 5, 1995).

Medicaid: States Use Illusory Approaches to Shift Program Costs to the Federal Government (GAO/HEHS-94-133, Aug. 1, 1994).

Medicaid: The Texas Disproportionate Share Program Favors Public Hospitals (GAO/HRD-93-86, Mar. 30, 1993).

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Create a Uniform Federal Mechanism for Food Safety

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House) Energy and Commerce (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 subfunction	554/Consumer and occupational health and safety
Framework theme	Improve efficiency

A multitude of agencies oversee food safety, with two agencies accounting for most federal spending on, and regulatory responsibilities for, food safety. The Food Safety and Inspection Service (FSIS), under USDA, is responsible for the safety of meat, poultry, eggs, and some egg products, while the Food and Drug Administration (FDA), under HHS, is responsible for the safety of most other foods.

The current food safety system emerged from a patchwork of often archaic laws and grew into a structure that actually hampers efforts to address existing and emerging food safety risks. Moreover, the current regulatory framework addresses only a segment—primarily food processing—of the continuum of activities that bring food from the farm to the table. Finally, scientific and technical advances in the production of food, such as the development of genetically modified foods, have further complicated the responsibilities of the existing federal food safety structure. Indeed, the current food safety system suffers from gaps, overlapping and duplicative inspections, poor coordination, and inefficient allocation of resources.

The Congress could consider the following options to improve the effectiveness and efficiency of the federal food safety system and ensure a comprehensive farm-to-table approach—one that starts with growers and extends to retailers. One option would be to consolidate federal food safety agencies and activities under a single, independent, risk-based food

safety agency responsible for administering a uniform set of laws. A second option would be to consolidate food safety activities in an existing department, such as USDA or HHS. CBO agrees that these options could potentially yield savings, but did not develop savings estimates due to the uncertainty of the extent to which improved efficiencies actually led to budgetary savings.

Related GAO Products

Food Safety: CDC Is Working to Address Limitations in Several of Its Foodborne Surveillance Systems (GAO-01-973, Sept. 7, 2001).

Food Safety: Federal Oversight of Shellfish Safety Needs Improvement (GAO-01-702, July 9, 2001).

Food Safety: Overview of Federal and State Expenditures (GAO-01-177, Feb. 20, 2001).

Food Safety: Federal Oversight of Seafood Does Not Sufficiently Protect Consumers (GAO-01-204, Jan. 31, 2001).

Food Safety: Actions Needed by USDA and FDA to Ensure That Companies Promptly Carry Out Recalls (GAO/RCED-00-195, Aug. 17, 2000).

Food Safety: Improvements Needed in Overseeing the Safety of Dietary Supplements and "Functional Foods" (GAO/RCED-00-156, July 11, 2000).

Meat and Poultry: Improved Oversight and Training Will Strengthen New Food Safety System (GAO/RCED-00-16, Dec. 8, 1999).

Food Safety: Agencies Should Further Test Plans for Responding to Deliberate Contamination (GAO/RCED-00-3, Oct. 27, 1999).

Food Safety: U.S. Needs a Single Agency to Administer a Unified, Risk-Based Inspection System (GAO/T-RCED-99-256, Aug. 4, 1999).

Food Safety: Opportunities to Redirect Federal Resources and Funds Can Enhance Effectiveness (GAO/RCED-98-224, Aug. 6, 1998).

Food Safety: Federal Efforts to Ensure the Safety of Imported Foods Are Inconsistent and Unreliable (GAO/RCED-98-103, Apr. 30, 1998).

Food Safety: Changes Needed to Minimize Unsafe Chemicals in Food (GAO/RCED-94-192, Sept. 26, 1994).

Food Safety and Quality: Uniform Risk-based Inspection System Needed to Ensure Safe Food Supply (GAO/RCED-92-152, June 26, 1992).

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Convert Public Health Service Commissioned Corps Officers to Civilian Status

Authorizing committees	Health, Education, Labor and Pensions (Senate) Energy and Commerce (House)
Appropriations subcommittees	Labor, Health and Human Services, Education, and Related Agencies (Senate and House)
Primary agency	Department of Health and Human Services
Account	Multiple
Spending type	Discretionary/Direct
Budget subfunction	551/Health care services
Framework theme	Improve efficiency

The Commissioned Corps of the Public Health Service (PHS) was established in the late 1800s to provide medical care to sick and injured merchant seamen. Over the ensuing years, the Corps' responsibilities have grown, and Corps officers today are involved in a wide range of PHS programs, such as providing medical care to Native Americans at tribal and Indian Health Service facilities; providing psychiatric, medical, and other services in federal prisons; and participating in health sciences research. As the result of their temporary service with the armed forces during World Wars I and II, members of the Corps were authorized to assume military ranks and receive military-like compensation, including retirement eligibility (at any age) after 20 years of service. Corps officers continue to receive virtually the same pay and benefits as military officers, including retirement. The functions of the Corps are essentially civilian in nature, and some civilian PHS employees carry out the same functions as Corps members. Further,

- the Corps has not been incorporated into the armed forces since 1952;
- generally, the Corps does not meet the criteria and principles cited in a DOD report as justification for the military compensation system; and
- other than Corps officers who are detailed to the Coast Guard and DOD, Corps members are not subject to the Uniform Code of Military Justice, which underlies how military personnel are managed.

Corps officials maintain that uniformed Corps members are needed as mobile cadres of professionals who can be assigned with little notice to any location and function, often in hazardous or harsh conditions. However, other agencies, such as the Environmental Protection Agency, the National Transportation Safety Board, and the Federal Emergency Management Agency, use civilian employees to respond quickly to disasters and other emergency situations that could involve both hazardous and harsh conditions.

Based on 1994 costs, when all of the components of personnel costs—including basic pay and salaries; special pay, allowances, and bonuses; retirement; health care; life insurance; and Corps members' tax advantages—were considered, PHS personnel costs could have been reduced by converting the PHS Corps to civilian status. Any decision to convert the Corps could be implemented in a number of ways to address a variety of transition issues. For example, all officers with a specific number of years in the Corps could be allowed to continue until retirement or other separation, while all new entrants would be required to be civilian employees.

Although CBO estimates that converting officers with fewer than 15 years of service to civilian status would result in a net cost to the federal government during the initial 5-year estimation period, it agrees that annual savings of millions of dollars would continue to grow as new entrants were hired at a lower cost than PHS Corps recruits.

Related GAO Products

Federal Personnel: Public Health Service Commissioned Corps Officers' Health Care for Native Americans (GAO/GGD-97-111BR, Aug. 27, 1997).

Federal Personnel: Issues on the Need for the Public Health Service's Commissioned Corps (GAO/GGD-96-55, May 7, 1996).

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Control Provider Enrollment Fraud in Medicaid

Authorizing committees	Finance (Senate) Energy and Commerce (House)
Appropriations subcommittees	Labor, Health and Human Services, Education and Related Agencies (Senate and House)
Primary agency	Department of Health and Human Services
Account	Grants to States for Medicaid (75-0512)
Spending type	Direct
Budget subfunction	551/Health care services
Framework theme	Improve efficiency

Recent investigations of fraud in the California Medicaid program, which could exceed $1 billion in program losses, involve cases in which closer scrutiny would have raised questions about the legitimacy of the providers involved. State Medicaid programs are responsible for processing millions of providers' claims each year, making it impossible to perform detailed checks on a significant portion of them. While most providers bill appropriately, states need enrollment procedures to help prevent entry into Medicaid by providers intent on committing fraud. Preventing such providers from billing the program is more efficient than attempted recovery once payments have already been made.

Our July 2000 testimony highlighted several Medicaid programs that have comprehensive procedures to check the legitimacy of providers before they can bill the program. These states check that a provider has a valid license (if required) and no criminal record, has not been excluded from other federal health programs, and practices from a legitimate business location. However, only nine states report that they conduct all of these checks. In addition, we found that many states poorly control provider billing numbers. They either allow providers to bill indefinitely or fail to cancel inactive numbers. Since billing numbers are necessary to submit claims, poor control of them may allow fraudulent providers to obtain other providers' numbers and bill the program inappropriately.

At present, the federal government has no uniform or minimum requirements in approving providers' applications. As a result, we believe that it would be beneficial for the Centers for Medicare and Medicaid

Services (CMS)—the agency formerly called the Health Care Financing Administration (HCFA)—to assist states in developing effective provider enrollment procedures. If states could limit entrance of even a small percentage of dishonest providers by adopting such procedures, future Medicaid costs would be reduced substantially. CMS currently has a work group that is considering options for a limited pilot project to study coordinating aspects of Medicaid and Medicare provider enrollment activities. However, CBO cannot develop an estimate of the savings for this option until specific strategies are identified. Moreover, savings would be net of the additional resources required to implement such procedures.

Related GAO Products

Medicaid: State Efforts to Control Improper Payment Vary (GAO-01-662, June 7, 2001).

Medicaid: HCFA and States Could Work Together to Better Ensure the Integrity of Providers (GAO/T-HEHS-00-159, July 18, 2000).

Medicaid: Federal and State Leadership Needed to Control Fraud and Abuse (GAO/T-HEHS-00-30, Nov. 9, 1999).

Health Care: Fraud Schemes Committed by Career Criminals and Organized Criminal Groups and Impact on Consumers and Legitimate Health Care Providers (GAO/OSI-00-1R, Oct. 5, 1999).

Medicaid Fraud and Abuse: Stronger Action Needed to Remove Excluded Providers From Federal Health Programs (GAO/HEHS-97-63, Mar. 31, 1997).

Fraud and Abuse: Providers Excluded From Medicaid Continue to Participate in Federal Health Programs (GAO/T-HEHS-96-205, Sept. 5, 1996).

Prescription Drugs and Medicaid: Automated Review Systems Can Help Promote Safety, Save Money (GAO/AIMD-96-72, June 11, 1996).

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570 Medicare

Reassess Medicare Incentive Payments in Health Care Shortage Areas
Adjust Medicare Payment Allowances to Reflect Changing Technology, Costs, and Market Prices
Increase Medicare Program Safeguard Funding
Continue to Reduce Excess Payments to Medicare+Choice Health Plans
Modify the Skilled Nursing Facility Payment Method to Ensure Appropriate Payments
Implement Risk-Sharing in Conjunction with Medicare Home Health Agency Prospective Payment System
Eliminate Medicare Competitive Sourcing Restrictions
Change Pricing Formula for Medicare-Covered Drugs

Reassess Medicare Incentive Payments in Health Care Shortage Areas

Authorizing committees	Finance (Senate) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services, Education and Related Agencies (Senate and House)
Primary agency	Department of Health and Human Services
Account	Federal Supplemental Insurance Trust Fund Account (20-8004)
Spending type	Direct
Budget subfunction	571/Medicare
Framework theme	Reassess objectives

The Medicare Incentive Payment program was established in 1987 amid concerns that low Medicare reimbursement rates for primary care services cause access problems for Medicare beneficiaries in underserved areas. The program pays physicians a 10-percent bonus payment for Medicare services they provide in areas identified by the Department of Health and Human Services as having a shortage of primary care physicians. In 1997, bonus payments paid from the Medicare Supplemental Medical Insurance trust found amounted to over $90 million.

This program, however, may not be the most appropriate means of addressing medical underservice.

- The need for this program may have changed; since 1987 the Congress generally increased reimbursement rates for primary care services and reduced the geographic variation in physician reimbursement rates. In addition, recent surveys of Medicare beneficiaries who have access problems, including those who may live in underserved areas, generally cite reasons other than the unavailability of a physician—such as the cost of services not paid by Medicare—for their access problems.

- The relatively small bonus payments most physicians receive—a median payment of $341 for the year in 1996—are unlikely to have a significant impact on physician recruitment and retention.

- Specialists receive most of the program dollars, even though primary care physicians have been identified as being in short supply, while shortages of specialists, if any, have not been determined.

- The program provides no incentives or assurances that physicians receiving bonuses will actually treat people who have problems obtaining health care.

- Centers for Medicare and Medicaid Services—formerly the Health Care Financing Administration—oversight of the program also has limitations that allow physicians and other providers to receive and retain bonus payments claimed in error.

HHS has acknowledged problems in the program and agrees that making incentive payments to specialists in urban areas appears to be unnecessary. The department has stated that it is clear that certain structural changes to this program are necessary to better target incentive payments to rural areas with the highest degree of shortage.

If the Congress determines that this program is not an appropriate vehicle for addressing medical underservice, then termination is a reasonable option. However, if it is decided to continue the program, then the Congress could consider reforms that clarify the program's intent and better structure the program to link limited federal funds to intended outcomes. For example, if the program's intent is to improve access to primary care services in underserved rural areas, the bonus payments should be limited to physicians providing primary care services to underserved populations in rural areas with the greatest need. Better targeting of the payments and evaluations would also be needed to provide assurances that the payments are achieving their intended outcomes.

The savings estimate that follows assumes that the Congress eliminates the additional 10-percent payment for services delivered in urban and rural HPSAs beginning in fiscal year 2001.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 funding level					
Budget authority	110	120	125	130	140
Outlays	110	120	125	130	140

Source: Congressional Budget Office.

Note: Estimate includes HMO interaction and is net of Part B premium effects.

Related GAO Products

Physician Shortage Areas: Medicare Incentive Payments Not an Effective Approach to Improve Access (GAO/HEHS-99-36, Feb. 26, 1999).

Health Care Shortage Areas: Designations Not a Useful Tool for Directing Resources to the Underserved (GAO/HEHS-95-200, Sept. 8, 1995).

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Adjust Medicare Payment Allowances to Reflect Changing Technology, Costs, and Market Prices

Authorizing committees	Finance (Senate) Energy and Commerce (House) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services, Education and Related Agencies (Senate and House)
Primary agency	Department of Health and Human Services
Account	Federal Supplementary Medical Insurance Trust Fund (20-8004)
Spending type	Direct
Budget subfunction	571/Medicare
Framework theme	Improve efficiency

Medicare's supplementary medical insurance program (Medicare Part B) allowed almost $6 billion for durable medical equipment, supplies, prosthetics, orthotics, enteral and parenteral nutrition, and outpatient drugs in 1998. For most medical equipment and supplies, Medicare payments are primarily based on historical charges, indexed forward, rather than current costs or market prices. For example, the Medicare payments for such items as walkers, catheters, and glucose test strips are based on supplier charges allowed in 1986 and 1987 and were adjusted for inflation each year. Beginning in 1998, Medicare law was amended to freeze Medicare payments for medical equipment and supplies and limit payment increases for prosthetics and orthotics to1 percent each year for 5 years.

We have reported that Medicare payments for some medical equipment and supplies are out of line with market prices. This can occur when providers' costs for some procedures, equipment, and supplies have declined over time as competition and efficiencies increased. For example, when Medicare sets its payment rates for new items, the rates typically are based on the high initial unit costs. Over time, providers' unit costs decline as the equipment improves, utilization increases, and experience in using the equipment results in efficiencies. In other cases, medical innovations and advances have increased the cost of some procedures and products. However, Medicare did not have a process to routinely and systematically review these factors and make timely adjustments to the Medicare allowances. In fact, through the years, the Congress has legislatively

adjusted Medicare allowances for some products and services, such as home oxygen, clinical laboratory tests, intraocular lenses, computed tomography scans, and magnetic resonance imaging scans.

To respond to problems with excessive payments, the Balanced Budget Act of 1997 provided the Health Care Financing Administration (HCFA)—the agency now called the Centers for Medicare & Medicaid Services (CMS)—the authority to use a streamlined process for adjusting Medicare Part B payments by up to 15 percent per year. (This revised authority does not extend to adjusting Medicare payments for physician services.) In 1998, HCFA issued an interim final rule with a comment period to implement the revised process. Under the revised process, HCFA and its contractors have each issued a notice proposing to reduce Medicare payments for different items of medical equipment, supplies, and prosthetics. The contractors' proposed payment reductions are based on retail prices that beneficiaries would pay. HCFA used competitive prices paid by the VA to account for supplier costs in proposing Medicare payment reductions. On July 2000, we issued a report on HCFA's and the contractors' actions to implement the revised authority in adjusting payments. The Congress also passed legislation requiring HCFA to publish a final rule that responds to issues raised in GAO's report and to public comments on the implementation of the revised authority. The agency has not yet issued a final rule. Once the final rule has been issued, CMS and its contractors plan to move forward with the proposed payment reductions.

An obstacle to effectively using this new authority is that Medicare frequently does not know specifically what it is paying for. CMS does not require suppliers to identify on Medicare claims the specific items billed. Instead, suppliers are required to use CMS billing codes, most of which cover a broad range of products of various types, qualities, and market prices. For example, one Medicare billing code is used for more than 200 different urological catheters, even though some of these catheters sell at a fraction of the price of others billed under the same code. Unless Medicare claims contain more product-specific information, CMS cannot track what items are billed to ensure that each billing code is used for comparable products. Although the health care industry is increasingly using more specific universal product numbers and bar codes for inventory control, CMS does not currently require suppliers to use these identifiers on Medicare claims.

CMS is exploring the use of universal product numbers as a way to improve Medicare's ability to pay for medical equipment and supplies. In September

1999, HCFA awarded a 1-year contract to an outside consultant to gather information on universal product numbers and determine how they could be integrated into the Medicare claims processing system. CBO is also collecting data on a Universal Product Code-based payment system and is unable to provide saving estimates at this time.

There are a number of other options that could also help bring Medicare allowances more in line with actual costs and market prices. For example, the Congress authorized HCFA to implement competitive bidding demonstrations for some Part B services and supplies (except for physician services). In 1998, HCFA announced plans for the first competitive bidding demonstration project in Polk County, Florida. In the spring of 1999, HCFA selected competing suppliers to provide, at reduced Medicare payment rates, oxygen supplies, hospital beds, surgical dressings, enteral nutrition equipment and supplies, and urological supplies. When the local payment rates took effect for these items in October 1999 (and will remain in effect for 2 years), HCFA achieved a 17-percent reduction in Medicare payments on average. In 2000, HCFA began a second competitive bidding demonstration project in three counties near San Antonio, Texas for oxygen supplies, hospital beds, manual wheelchairs, non-customized orthotic devices (such as braces and splints), and nebulizer inhalation drugs. The new payment rates for these items, which are on average 20 percent below existing Medicare rates for Texas, will be in effect from February 1, 2001 through December 31, 2002.

These projects may eventually bring some Medicare payment rates more in line with actual costs and market rates, but none of these projects specifically targets expensive, evolving technologies. We believe significant program savings would result from an ongoing, systematic process for evaluating the reasonableness of Medicare payment rates for new medical technologies as those technologies mature.

Another approach for paying more appropriately for medical equipment and supplies is basing Medicare payments on the lower of the fee schedule allowance or the lowest amount a provider has agreed to accept from other payers. CMS would need legislative authority to pursue this option. Yet another approach is to develop separate fee schedules that distinguish between wholesale and retail acquisition to ensure that large suppliers do not receive inappropriately large Medicare reimbursements. While the CBO agrees that aligning Medicare allowances with costs and market prices could yield savings, it cannot develop an estimate until CMS has completed its demonstration projects and implemented specific proposals.

Related GAO Products

Medicare Payments: Use of Revised "Inherent Reasonableness" Process Generally Appropriate (GAO/HEHS-00-79, July 5, 2000).

Medicare: Access to Home Oxygen Largely Unchanged; Closer HCFA Monitoring Needed (GAO/HEHS-99-56, Apr. 5, 1999.)

Medicare: Progress to Date in Implementing Certain Major Balanced Budget Act Reforms (GAO/T-HEHS-99-87, Mar. 17, 1999).

Medicare: Need to Overhaul Costly Payment System for Medical Equipment and Supplies (GAO/HEHS-98-102, May 12, 1998).

Medicare: Home Oxygen Program Warrants Continued HCFA Attention (GAO/HEHS-98-17, Nov. 7, 1997).

Medicare: Problems Affecting HCFA's Ability to Set Appropriate Reimbursement Rates for Medical Equipment and Supplies (GAO/HEHS-97-157R, June 17, 1997).

Medicare: Comparison of Medicare and VA Payment Rates for Home Oxygen (GAO/HEHS-97-120R, May 15, 1997).

Medicare Spending: Modern Management Strategies Needed to Curb Billions in Unnecessary Payments (GAO/HEHS-95-210, Sept. 19, 1995).

Medicare High Spending Growth Calls for Aggressive Action (GAO/T-HEHS-95-75, Feb. 6, 1995).

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

GAO Contact

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Increase Medicare Program Safeguard Funding

Authorizing committees	Finance (Senate) Energy and Commerce (House) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services, Education and Related Agencies (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 subfunction	571/Medicare
Framework theme	Improve efficiency

Medicare program safeguard activities designed to combat fraud, waste, and abuse have historically returned about $10 in savings for each dollar spent, and HCFA has reported a return of $15 for each dollar spent in fiscal year 1999. These types of activities include pre- and post-payment medical review of claims to determine if services are medically necessary and appropriate, audits, and fraud unit investigations. The Health Insurance Portability and Accountability Act of 1996 established the Medicare Integrity Program (MIP) and provided HCFA—the agency now called the Centers for Medicare & Medicaid Services—with increased funding for program safeguard activities. CBO estimated a net savings of over $3 billion from these increased resources given to HCFA, as well as other resources given to the HHS Office of Inspector General and the Federal Bureau of Investigation to identify and pursue individuals or entities that defraud federal health care programs. As we recently reported, CMS has taken a number of actions under MIP to promote more efficient and effective contractor safeguard operations. However, measuring the effectiveness of its actions is difficult because funding levels rose so recently and because the agency does not have the kind of data needed to measure the effectiveness of its efforts.

While funding has increased, in 2002 it will still remain below program safeguard funding levels in the previous decade, adjusted for inflation.

Comparing program safeguard expenditures from fiscal years 1995 through 1998—2 years before and after MIP implementation—shows that expenditures increased by more than one-quarter to $544.6 million. However, in constant 1998 dollars, the amount spent on program safeguards per claim processed is still almost one-third less than was spent in fiscal year 1989. Further, the combined effects of increased claims volume of 3 to 5 percent annually in recent years and inflation will erode part of the benefits of increased funding authorized for future years. For example, appropriated fiscal year 2002 funding of $700 million, adjusted for inflation and claims growth, is expected to be about 10 percent below the 1991 through 1996 average. In response to reduced resources, contractors apply fewer or less stringent payment controls resulting in payment of claims that otherwise would not be paid.

We believe that additional program safeguard funding might better protect Medicare from erroneous payments and yield net savings. As a result, we recently suggested that the Congress consider increasing the agency's MIP funds to allow an expansion of postpayment and other effective program safeguard activities. However, CMS needs a better understanding of costs and savings from particular activities—such as desk reviews and cost audits. It also needs to consistently code savings from different activities to understand their relative value, as well as determine which contractors are realizing the highest return on investment from their program safeguard activities. Therefore, we also recommended that HCFA evaluate the effectiveness of prepayment and postpayment activities to determine the relative benefits of various safeguards.

CBO did not prepare a savings estimate for this option because it does not estimate changes in direct spending due to changes in discretionary spending.

Related GAO Products

Medicare: Opportunities and Challenges in Contracting for Program Safeguards (GAO-01-616, May 18, 2001).

Major Management Challenges and Program Risks: Department of Health and Human Services (GAO-01-247, Jan. 2001).

Medicare: HCFA Could Do More to Identify and Collect Overpayments (GAO/HEHS/AIMD-00-304, Sept. 7, 2000).

Medicare: Health Care Fraud and Abuse Control Program Financial Reports for Fiscal Years 1998 and 1999 (GAO/AIMD-00-257R, July 31, 2000).

Medicare Contractors: Further Improvement Needed in Headquarters and Regional Office Oversight (GAO/HEHS-00-46, Mar. 23, 2000).

Medicare: Program Safeguard Activities Expand, but Results Difficult to Measure (GAO/HEHS-99-165, Aug. 4, 1999).

Medicare Contractors: Despite Its Efforts, HCFA Cannot Assure Their Effectiveness or Integrity (GAO/HEHS-99-115, July 14, 1999).

Medicare: Improprieties by Contractors Compromised Medicare Program Integrity (GAO/OSI-99-7, July 14, 1999).

Medicare: Fraud and Abuse Control Pose a Continuing Challenge (GAO/HEHS-98-215R, July 15, 1998).

Medicare: Health Care Fraud and Abuse Control Program Financial Report for Fiscal Year 1997 (GAO/AIMD-98-157, June 1, 1998).

Medicare: HCFA's Use of Anti-Fraud-and-Abuse Funding and Authorities (GAO/HEHS-98-160, June 1, 1998).

Medicare: Improper Activities by Mid-Delta Home Health (GAO/OSI-98-5, Mar. 12, 1998).

Medicare Home Health: Success of Balanced Budget Act Cost Controls Depends on Effective and Timely Implementation (GAO/T-HEHS-98-41, Oct. 29, 1997).

Medicare: Recent Legislation to Minimize Fraud and Abuse Requires Effective Implementation (GAO/T-HEHS-98-9, Oct. 9, 1997).

Medicare Fraud and Abuse: Summary and Analysis of Reform in the Health Insurance Portability and Accountability Act of 1996 and the Balanced Budget Act of 1997 (GAO/HEHS-98-18R, Oct. 9, 1997).

Medicare: Control Over Fraud and Abuse Remains Elusive (GAO/T-HEHS-97-165, June 26, 1997).

Nursing Homes: Too Early to Assess New Efforts to Control Fraud and Abuse (GAO/T-HEHS-97-114, Apr. 16, 1997).

Medicare: Inherent Program Risks and Management Challenges Require Continued Federal Attention (GAO/T-HEHS-97-89, Mar. 4, 1997).

Medicare (GAO/HR-97-10, Feb. 1997).

Funding Anti-Fraud and Abuse Activities (GAO/HEHS-95-263R, Sept. 29, 1995).

Medicare: High Spending Growth Calls for Aggressive Action (GAO/T-HEHS-95-75, Feb. 6, 1995).

Medicare Claims (GAO/HR-95-8, Feb. 1995).

Medicare: Adequate Funding and Better Oversight Needed to Protect Benefit Dollars (GAO/T-HRD-94-59, Nov. 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, Feb. 28, 1989).

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

GAO Contact

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Continue to Reduce Excess Payments to Medicare+Choice Health Plans

Authorizing committees	Finance (Senate) Commerce (House) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services, Education and Related Agencies (Senate and House)
Primary agency	Department of Health and Human Services
Account	Federal Supplementary Medical Insurance Trust Fund (20-8004)
Spending type	Direct[a]
Budget subfunction	571/Medicare
Framework theme	Improve efficiency

[a]A small portion of this option includes administrative expenses that are discretionary in nature.

The Balanced Budget Act of 1997 (BBA) created the Medicare+Choice program to encourage the wider availability of health maintenance organizations (HMO) and permit other types of health plans, such as preferred provider organizations, to participate in Medicare. BBA also modified the methodology used to pay plans, in part because the government was paying more to cover beneficiaries in managed care than it would have spent if these individuals had remained in the traditional fee-for-service program. Since BBA was enacted, a substantial number of HMOs have partially or completely withdrawn from Medicare or announced that they will do so at the end of December 2001. Industry representatives have cited inadequate Medicare payment rates and regulatory burdens as primary reasons for the withdrawals. To address the HMOs' concerns, the Balanced Budget Refinement Act of 1999(BBRA) and the Benefits Improvement and Protection Act of 2000 (BIPA) moderated some of BBA's payment reforms and introduced new incentives for plan participation in the Medicare+Choice program.

Our recent reports found that (1) HMO withdrawals were associated with many factors, including competitive market forces and the inherent difficulty HMOs have operating cost effectively in sparsely populated areas, and (2) 1998 payments to HMOs exceeded by an estimated $3.2 billion the amount that Medicare would have spent to serve HMO enrollees in the traditional fee-for-service program. These excess payments occurred because HMO payment rates are largely determined by the cost of serving

the average beneficiary while HMOs tend to attract a favorable selection of healthier-than-average beneficiaries with lower expected health care costs. We have has also reported that Medicare's administratively determined payment formula for HMOs does not harness competitive market forces. Competition among Medicare HMOs for market share may result in improved benefits packages or reduced fees charged to beneficiaries, but it does not produce program savings.

We have suggested that Medicare pursue the following strategies to address the problem of excess payments and help save the government money when Medicare beneficiaries enroll in HMOs.

- Implement a risk adjustment method that uses comprehensive data to adjust payment rates on the basis of a beneficiary's expected annual health care costs. BBA mandated that the Secretary of Health and Human Services implement a health-based risk adjuster. In 2000, Medicare began to phase in an interim method based on inpatient hospital data only. This method, if fully implemented, would have reduced HMO payments by about 5.9 percent, or about half of the $3.2 billion in excess payments caused by favorable selection in 1998. However, BBRA and BIPA slowed the implementation of the interim adjuster and mandated additional studies on risk adjustment methods.

- Shift to a system in which Medicare+Choice rates are competitively determined. Competitive bidding demonstrations were mandated by BBA, but provisions in BBRA will delay implementation of such demonstrations until at least January 1, 2002.

CBO agrees that savings are possible if the above strategies are followed, but savings would depend on the interactions between price and enrollment changes. Consequently, CBO cannot estimate savings for this option without a more specific proposal.

Related GAO Products

Medicare+Choice: Plan Withdrawals Indicate Difficulty of Providing Choice While Achieving Savings (GAO/HEHS-00-183, Sept. 7, 2000).

Medicare+Choice: Payments Exceed Cost of Fee-for-Service Benefits, Adding Billions to Spending (GAO/HEHS-00-161, Aug. 23, 2000).

Medicare: Better Information Can Help Ensure That Refinements to BBA Reforms Lead to Appropriate Payments (GAO/T-HEHS-00-14, Oct. 1, 1999).

Medicare+Choice: Reforms Have Reduced, but Likely Not Eliminated, Excess Plan Payments (GAO/HEHS-99-144, June 18, 1999).

Medicare+Choice: Impact of 1997 Balanced Budget Act Payment Reforms on Beneficiaries and Plans (GAO/T-HEHS-99-137, June 9, 1999).

Medicare Managed Care: Better Risk Adjustment Expected to Reduce Excess Payments Overall While Making Them Fairer to Individual Plans (GAO/T-HEHS-99-72, Feb. 25, 1999).

Medicare HMOs: Setting Payment Rates Through Competitive Bidding (GAO/HEHS-97-154R, June 12, 1997).

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Modify the New Skilled Nursing Facility Payment Method to Ensure Appropriate Payments

Authorizing committees	Finance (Senate) Ways and Means (House) Energy and Commerce (House)
Appropriations subcommittees	Labor, Health and Human Services, Education and Related Agencies (Senate and House)
Primary agency	Department of Health and Human Services
Account	Federal Hospital Insurance Trust Fund (20-8005)
Spending type	Direct
Budget subfunction	571/Medicare
Framework theme	Improve efficiency

The Balanced Budget Act mandated the implementation of a prospective payment system (PPS) for skilled nursing facilities (SNF) to help address concerns about dramatic growth in Medicare spending for these services. A PPS provides incentives to deliver services efficiently by paying providers—regardless of their costs—fixed, predetermined rates that vary according to expected patient service needs. The Health Care Financing Administration (HCFA), now called the Centers for Medicare and Medicaid Services (CMS), began phasing in such a system for SNFs in July 1998.

However, problems with the design of the PPS, the services excluded from the daily rate, inadequate data used to establish rates, and inadequate planned oversight of claims for payment could compromise Medicare's ability to stem spending growth while maintaining beneficiary access. We are concerned that the PPS preserves the opportunity for providers to increase their compensation by supplying potentially unnecessary services, such as additional therapy services, or by increasing length of stay. In addition, services that have been excluded from the daily rate, and are paid for separately, may encourage service provision and unnecessarily increase Medicare spending. For example, some services are excluded only when provided in hospital outpatient departments, which may encourage providers to use this setting when other, less costly ambulatory settings could be appropriate. Furthermore, the payment rates were computed using data that may overstate the reasonable cost of providing care and may not appropriately reflect the differences in costs for patients with different care needs. In addition, as part of the system, Medicare appears

to have changed the process for determining eligibility for the Medicare SNF benefit. Beneficiaries with certain care needs are automatically eligible for the SNF benefit, while other beneficiaries with different care needs are required to be reviewed to ensure that they meet the eligibility criteria. This could expand the number of beneficiaries who will be covered. The planned oversight of claims to determine if a beneficiary is entitled to Medicare coverage and how much payment a SNF should receive is insufficient, increasing the potential to compromise expected savings.

We believed that CMS should modify the SNF PPS regulations to address these concerns. Medicare needs to ensure that the payment rates reflect only necessary services that the facilities actually provide. It also needs to establish a process to review the services that are included and excluded from the PPS. Medicare should also increase its viligance over claims review and provider oversight so that payments are appropriate and made only for eligible beneficiaries.

CBO agrees that improved payment methods and oversight could reduce spending. However, by convention, CBO only estimates the costs or savings of proposals that change current law, not administrative changes.

Related GAO Products

Skilled Nursing Facilities: Services Excluded From Medicare's Daily Rate Need to be Reevaluated (GAO-01-816, Aug. 22, 2001).

Nursing Homes: Aggregate Medicare Payments Are Adequate Despite Bankruptcies (GAO/T-HEHS-00-192, Sept. 5, 2000).

Skilled Nursing Facilities: Medicare Payments Changes Require Provider Adjustments But Maintain Access (GAO/HEHS-00-23, Dec. 14, 1999).

Medicare: Better Information Can Help Ensure That Refinements to BBA Reforms Lead to Appropriate Payments (GAO/T-HEHS-00-14, Oct. 1, 1999).

Skilled Nursing Facilities: Medicare Payments Need to Better Account for Nontherapy Ancillary Cost Variation (GAO/HEHS-99-185, Sept. 30, 1999).

Medicare Post-Acute Care: Better Information Needed Before Modifying BBA Reforms (GAO/T-HEHS-99-192, Sept. 15, 1999).

Balanced Budget Act: Any Proposed Fee-for-Service Payment Modifications Need Thorough Evaluation (GAO/T-HEHS-99-139, June 10, 1999).

Medicare: Progress to Date in Implementing Certain Major Balanced Budget Act Reforms (GAO/T-HEHS-99-87. Mar. 17, 1999).

Balanced Budget Act: Implementation of Key Medicare Mandates Must Evolve to Fulfill Congressional Objectives (GAO/T-HEHS-98-214, July 16, 1998).

Long-Term Care: Baby Boom Generation Presents Financing Challenges (GAO/T-HEHS-98-107, Mar. 9, 1998).

Medicare Post-Acute Care: Home Health and Skilled Nursing Facility Cost Growth and Proposals for Prospective Payment (GAO/T-HEHS-97-90, Mar. 4, 1997).

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Implement Risk-Sharing in Conjunction with Medicare Home Health Agency Prospective Payment System

Authorizing committees	Finance (Senate) Energy and Commerce (House) Ways and Means (House)
Appropriations subcommittees	Labor, HHS, Education and Related Agencies (Senate and House)
Primary agency	Department of Health and Human Services
Account	Federal Supplementary Medical Insurance Trust Fund (20-8004)
Spending type	Direct
Budget subfunction	571/Medicare
Framework theme	Improve efficiency

Medicare spending for home health care rose from $3.7 billion in 1990 to $17.8 billion in 1997—an annual growth rate of over 25 percent—making it one of the fastest growing components of the Medicare program. This spending growth was primarily due to more beneficiaries receiving services and more visits provided per user, because Medicare's cost-based payment method reimbursed home health agencies (HHA) for each visit provided. To control spending, the Balanced Budget Act of 1997 (BBA) required the implementation of a prospective payment system (PPS) for home health agencies. Beginning October 1, 2000, Medicare will pay a fixed, predetermined amount for each 60-day episode of care, adjusted for patient characteristics that affect the costs of providing care. Under this system, agencies will be rewarded financially for keeping their per-episode costs below the payment rate and thus will have a strong incentive to reduce the number of visits provided during an episode and to shift to a less costly mix of visits.

However, under an episode-based payment system, HHAs will have an incentive to provide the minimum number of visits necessary to receive a full episode payment. While the initial episode payment is based on an average of 27 visits, agencies can receive an episode payment if they provide as few as 5 visits. Agencies providing more than the average number of visits in an episode can reduce their level of service provision below that used to develop the episode base payment, thereby increasing profits. Conversely, HHAs could treat beneficiaries who need only a few visits during a 60-day period and receive the full episode payment if they pass the 5-visit threshold. Such responses are likely, given that HHAs

historically have responded quickly to Medicare payment incentives, and because no agreed-upon standards exist for what constitutes necessary or appropriate home health care against which such changes could be assessed. Because the new PPS payment rates are based on 60-day service patterns reflecting historically high utilization levels, many HHAs will not have trouble keeping their service provision within the episode below these levels. In such cases, Medicare would in essence be paying for services that were not received by its beneficiaries.

In order to reduce these incentives, the Congress could require HCFA to implement a risk-sharing arrangement, in which total Medicare PPS payments to an HHA are adjusted at year-end in light of the provider's actual costs, to mitigate any unintended consequences of the payment change. Such an arrangement could moderate the incentive to manipulate services to maximize profits and the uncertainties associated with payment rates that are based on averages when so little is known about appropriate patterns of home health care. Limiting an HHA's losses or gains would help protect the industry, the Medicare program, and beneficiaries from possible negative effects of the PPS until more is known about how best to design the PPS and the most appropriate home health treatment patterns. CBO was unable to estimate savings for this option due to a lack of data on how home health agencies' costs compare to the new payment rates implemented on October 1, 2000.

Related GAO Products

Medicare Home Health Care: Prospective Payment System Could Reverse Recent Declines in Spending (GAO/HEHS-00-176, Sept. 8, 2000).

Medicare Home Health Care: Prospective Payment System Will Need Refinement as Data Become Available (GAO/HEHS-00-9, Apr. 7, 2000).

GAO Contact

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Eliminate Medicare Competitive Sourcing Restrictions

Authorizing committees	Finance (Senate) Ways and Means (House) Energy and Commerce (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Health and Human Services
Account	Program Management (75-0511)
Spending type	Discretionary
Budget subfunction	Medicare (571)
Framework theme	Improve efficiency

Medicare is a federal health insurance program designed to assist elderly and disabled beneficiaries. Hospital insurance, or part A, covers inpatient hospital, skilled nursing facility, hospice care, and certain home health services. Supplemental medical insurance, or part B, covers physician and outpatient hospital services, laboratory and other services. Claims are paid by a network of 49 claims administration contractors called intermediaries and carriers. Intermediaries process claims from hospitals and other institutional providers under part A, while carriers process part B claims. The intermediaries' and carriers' responsibilities include reviewing and paying claims, maintaining program safeguards to prevent inappropriate payment, and educating and responding to provider and beneficiary concerns.

Medicare contracting for fiscal intermediaries and carriers differs from that of most federal programs. Most federal agencies, under the Competition in Contracting Act and its implementing regulations known as the Federal Acquisition Regulation (FAR), generally may contract with any qualified entity for any authorized purpose so long as that entity is not debarred from government contracting and the contract is not for what is essentially a government function. The FAR generally requires agencies to conduct full and open competition for contracts and allows contractors to earn profits and requires contractors to perform until the end of the contract term.

The Secretary of HHS, however, is authorized to enter into contracts without regard to federal procurement statutes under provision of the Social Security Act enacted in 1965. For example, there is no full and open

competition for intermediary or carrier contracts. Rather, intermediaries are selected in a process called nomination by provider associations, such as the American Hospital Association. Because the statutory language authorizing Medicare claims administration contracting described a set of functions to be performed, claims administration contractors have generally been expected to perform the full set of functions, except when the Congress gave specific authority to contract separately for a function. The Social Security Act also generally calls for the use of cost-based reimbursement contracts under which contractors are reimbursed for necessary and proper costs of carrying out Medicare activities, but does not expressly provide for profit. Furthermore, the Medicare statute expressly limits the government's ability to terminate these contracts at its convenience, while allowing the claims administration contractors to terminate their contracts without penalty by providing the government with 180 days notice.

Freeing the Medicare program to directly choose contractors on a competitive basis from a broader array of entities able to perform needed tasks would enable Medicare to benefit from efficiency and performance improvements related to competition. Allowing Medicare to have contractors specialize in specific functions rather than assume all claims-related activities, as is the case now, also could lead to greater efficiency and better performance. If the Congress chose to lift contracting restrictions on the Medicare program, CBO estimates that the following savings costs would occur over the next 5 years.

Five-Year Costs

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from FY 2002 baseline					
Budget authority	165	170	175	180	185
Outlays	165	170	175	180	185

Source: Congressional Budget Office.

Related GAO Products

Medicare: Improvements Needed in Provider Communications and Contracting Procedures (GAO-01-1141T, Sept. 25, 2001).

Medicare: Comments on HHS' Claims Administration Contracting Reform Proposal (GAO-01-1046R, Aug. 17, 2001).

Medicare Contracting Reform: Opportunities and Challenges in Contracting for Claims Administration Services (GAO-01-918T, June 28, 2001).

Medicare Contractors: Despite Its Efforts, HCFA Cannot Ensure Their Effectiveness or Integrity (GAO/HEHS-99-115, July 14, 1999).

GAO Contact

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Change Pricing Formula for Medicare-Covered Drugs

Authorizing committees	Finance (Senate) Ways and Means (House) Energy and Commerce (House)
Appropriations subcommittees	Labor, Health and Human Services, Education and Related Agencies (Senate and House)
Primary agency	Department of Health and Human Services
Account	Federal Supplementary Medical Insurance Trust Fund (20-8004)
Spending type	Direct
Budget subfunction	Medicare (571)
Framework theme	Redefine beneficiaries

While Medicare does not have a comprehensive outpatient drug benefit, certain drugs and biologicals are covered under part B of the program. In general, drugs are covered if they cannot be self-administered and are related to a physician's services, such as cancer chemotherapy, or are provided in conjunction with covered durable medical equipment. In addition, Medicare covers selected immunizations and certain drugs that can be self-administered, such as blood clotting factors. Medicare bases its reimbursement to physicians and other providers of drugs on average wholesale price (AWP). Manufacturers periodically report AWPs to publishers of drug pricing data. Publishers of AWPs and other drug prices stated that they list the prices as reported to them by the manufacturers. Medicare carriers, the contractors responsible for paying part B claims, use published AWPs to determine the Medicare-allowed payment level, which is 95 percent of the AWP.

Physicians are able to obtain Medicare-covered drugs at prices significantly below current Medicare payments, which are set at 95 percent of AWP. Wholesalers' and group purchasing organizations' (GPO) prices that would be generally available to physicians were considerably less than the AWPs used to establish the Medicare payment for these drugs. The difference between these prices and AWP for physician-administered drugs in a GAO sample study varied by drug. For example, the average discount from AWP on physician-administered drugs varied from 13 percent to 34 percent.

Medicare could achieve significant savings from the more than $3 billion spent annually on Part B drug benefits if it reimbursed providers at levels that reflected acquisition costs or AWP, whichever is lower. While CBO agrees that this option would result in budgetary savings and in the past has developed a savings estimate for this option, it was unable to develop a savings estimate this year due to time constraints.

Related GAO Products

Medicare: Payments for Covered Outpatient Drugs Exceed Providers' Cost (GAO-01-1118, Sept. 21, 2001).

Medicare Part B Drugs: Program Payments Should Reflect Market Prices (GAO-01-1142T, Sept. 21, 2001).

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600 Income Security

Develop Comprehensive Return-to-Work Strategies for People with Disabilities
Revise Benefit Payments under the Federal Employees' Compensation Act
Increase Congressional Oversight of PBGC's Budget
Share the Savings from Bond Refundings
Implement a Service Fee for Successful Non-Temporary Assistance for Needy Families Child Support Enforcement Collections
Improve Reporting of DOD Reserve Payroll Data to State Unemployment Insurance Programs
Improve Social Security Benefit Payment Controls
Simplify Supplemental Security Income Recipient Living Arrangements
Reduce Federal Funding Participation Rate for Automated Child Support Enforcement Systems
Obtain and Share Information on Medical Providers and Middlemen to Reduce Improper Payments to Supplemental Security Income Recipients
Provide Congress More Information to Assess the Performance of the Special Supplemental Nutrition Program for Women, Infants, and Children

Develop Comprehensive Return-to-Work Strategies for People with Disabilities

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Social Security Administration
Account	Federal Disability Insurance Trust Fund (20-8007) Supplemental Security Income Program (20-0406)
Spending type	Direct
Budget subfunction	Multiple
Framework theme	Reassess objectives

The Social Security Administration (SSA) operates the Disability Insurance (DI) and Supplemental Security Income (SSI) programs—the nation's two largest federal programs providing cash benefits to people with disabilities. For fiscal year 1999, DI benefits to disabled workers were about $46.5 billion and SSI benefits were about $22.9 billion. SSA data show that over the past 10 years, the size of the working-age disabled beneficiary population increased 65 percent, from about 4.5 million to 7.5 million. Such growth has raised concerns that are compounded by the fact that less than one-half of 1 percent of DI beneficiaries ever leave the disability rolls by returning to work.

We found that return-to-work strategies and practices may hold potential for improving federal disability programs by helping people with disabilities return to productive activity in the workplace and, at the same time, reducing benefit payments. Our analysis of practices advocated and implemented by the private sector in the United States and by social insurance programs in Germany and Sweden revealed three common strategies in the design of their return-to-work programs: intervene as soon as possible after an actual or potentially disabling event to promote and facilitate return-to-work, identify and provide necessary return-to-work assistance and manage cases to achieve return-to-work goals, and structure cash and medical benefits to encourage people with disabilities to return-to-work.

In line with placing greater emphasis on return-to-work, we recommended that the Commissioner of SSA develop a comprehensive return-to-work strategy that integrates, as appropriate, earlier intervention, earlier

identification and provision of necessary return-to-work assistance for applicants and beneficiaries, and cash and medical benefits that make work more financially advantageous. SSA has recently taken steps to improve work outcomes, including increasing access to private vocational rehabilitation providers and awarding cooperative agreements to 12 states to develop integrated services to assist beneficiaries, return-to-work. Moreover, the Congress recently passed the Ticket to Work and Work Incentives Improvement Act of 1999, which contains provisions, among others, to safeguard medical coverage for workers with disabilities, enhance VR services for beneficiaries, and demonstrate the effectiveness of allowing working beneficiaries to keep more of their earnings. We acknowledge the importance of the new legislation and of SSA's initiatives to improve work opportunities. However, these efforts would have greater impact if benefits were structured to give beneficiaries greater impetus to use VR services and attempt work, and if return-to-work assistance were provided earlier in the decision-making process. We believe that substantial savings could be achieved if SSA were to develop such a program. However, such savings would be offset by program costs and any net savings would depend on the program's participation rate. CBO could not estimate this option because no specific proposals are provided.

Related GAO Products

Social Security Disability: Other Programs May Provide Lessons for Improving Return to Work Efforts (GAO/T-HEHS-00-151, July 13, 2000).

Social Security Disability: Multiple Factors Affect Return to Work (GAO/T-HEHS-99-82, Mar. 11, 1999).

Social Security Disability Insurance: Multiple Factors Affect Beneficiaries' Ability to Return to Work (GAO/HEHS-98-39, Jan. 12, 1998).

Social Security: Disability Programs Lag in Promoting Return to Work (GAO/HEHS-97-46, Mar. 17, 1997).

People With Disabilities: Federal Programs Could Work Together More Efficiently to Promote Employment (GAO/HEHS-96-126, Sept. 3, 1996).

SSA Disability: Return-to-Work Strategies From Other Systems May Improve Federal Programs (GAO/HEHS-96-133, July 11, 1996).

SSA Disability: Program Redesign Necessary to Encourage Return to Work (GAO/HEHS-96-62, Apr. 24, 1996).

GAO Contact

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Revise Benefit Payments under the Federal Employees' Compensation Act

Authorizing committees	Health, Education, Labor and Pensions (Senate) Education and the Workforce (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Labor
Account	Multiple
Spending type	Direct/Discretionary
Budget subfunction	609/Other income security
Framework theme	Reassess objectives

Federal workers who are disabled as a result of a work-related injury are entitled to tax-free workers' compensation benefits under the Federal Employees' Compensation Act (FECA). Several GAO reviews have identified ways in which benefit payment policies can be revised to better address eligibility and/or need or to bring FECA benefits more in line with other federal and state workers' compensation laws.

Basing FECA Compensation on Spendable Earnings

For almost all totally disabled individuals, FECA benefits are 66 and two thirds percent of gross pay for beneficiaries without dependents and 75 percent of gross pay for beneficiaries with at least one dependent. We reported that nearly 30 percent of the more than 23,000 beneficiaries included in our analyses received FECA compensation benefits that replaced more than 100 percent of their estimated take-home pay. Another 40 percent of these beneficiaries received FECA benefits that were from 90 to 99 percent of their take-home pay. Benefit replacement rates tended to be higher for beneficiaries who (1) received higher amounts of pay before they were injured, (2) were injured before 1980, (3) received the FECA dependent benefit, and (4) lived in states that had an income tax.

Workers' compensation program analysts are reluctant to take a position on what the "correct" level of workers' compensation benefits should be, leaving that matter to the judgment of legislators. According to a 1985 Workers Compensation Research Institute report, legislators in many states must walk a fine line between benefits that are high enough to provide adequate income, but not so high as to discourage an employee's

return-to-work when he or she is no longer disabled. The 1972 *Report of the National Commission on State Workmen's Compensation Laws* recommended that workers' weekly benefits should replace at least 80 percent of their spendable weekly earnings, subject to a state's maximum weekly benefit. Six states use a percentage of spendable weekly earnings (ranging from 75 to 80 percent) rather than a percentage of gross wages as the basis for computing compensation benefits. Spendable earnings (take-home pay) are computed by taking an employee's gross pay at the time of injury and subtracting Social Security taxes and federal and state income taxes. Taxes are based on published tax withholding tables, given an employee's actual exemptions and a standard deduction.

If the Congress judges that current FECA benefits are so high as to discourage employees from returning to work, it could consider changing the current FECA benefit structure from one that bases compensation on gross pay to one that bases compensation on spendable earnings. The following savings estimates assume that the new FECA benefit formula would equal 80 percent of spendable earnings. The CBO estimates below assume that changes in benefits would be made prospectively. Additional savings could be achieved if changes were made to affect individuals who were already receiving FECA benefits. Fewer savings would be achieved if a higher percentage of spendable earnings were used as the basis for computing FECA benefits.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Discretionary spending					
Savings from the 2002 baseline					
Budget authority	4	9	23	37	51
Outlays	4	9	23	37	51

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Direct spending					
Savings from the CBO baseline					
Budget authority	9	18	19	19	19
Outlays	9	18	19	19	19

Source: Congressional Budget Office.

Revising Benefits for Retirement Eligible Beneficiaries

Retirement-eligible federal workers who continue to be disabled as a result of work-related injuries could receive tax-free workers' compensation benefits under FECA for the remainder of their lives that would generally be greater than amounts these workers would receive as retirement benefits. FECA benefits are 75 percent of salary for a disabled employee with a dependent; Civil Service Retirement System benefits for a 55-year old employee with 30 years of service are 56 percent of salary. We reported that 60 percent of the approximately 44,000 long-term FECA beneficiaries were at least age 55, the age at which some federal employees are eligible for optional retirement with unreduced retirement benefits. Proponents for changing FECA benefits for older beneficiaries argue that an inequity is created between federal workers who retire normally and those who, in effect, "retire" on FECA benefits. Opponents of such a change argue that reducing benefits would break the implicit promise that injured workers have exchanged their right to tort claims for a given level of future benefits.

We identified two prior proposals for reducing FECA benefits to those who become eligible for retirement. One would convert compensation benefits received by retirement-eligible disabled workers to retirement benefits. However, this approach raises complex issues related to the tax-free nature of workers' compensation benefits and to the individual's entitlement to retirement benefits. The second proposal would convert FECA benefits to a newly established FECA annuity, thus avoiding the complexity of shifting from one benefit program to another.

To reduce benefits for retirement-eligible FECA beneficiaries, the Congress could consider converting from the current FECA benefit structure to a FECA annuity. The following savings estimate assumes that such an annuity would equal two-thirds of the previously provided FECA

compensation benefit, and that the annuity would begin following the disabled individual's eligibility for retirement benefits. The CBO estimate assumes that changes in benefits would be made prospectively. Additional savings could be achieved if changes were made to affect individuals who were already receiving FECA benefits.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Discretionary spending					
Savings from the 2002 baseline					
Budget authority	2	5	12	19	26
Outlays	2	5	12	19	26

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Direct spending					
Savings from the CBO baseline					
Budget authority	5	9	9	10	10
Outlays	5	9	9	10	10

Source: Congressional Budget Office.

FECA Cases Involving Third Parties

FECA authorizes federal agencies to continue paying employees their regular salaries for up to 45 days when they are absent from work due to work-related traumatic injuries. In cases in which third parties are responsible for employees' on-the-job injuries (e.g., dog bites or automobile-related injuries), the Department of Labor may require that employees pursue collection actions against these parties. However, based on current interpretations of FECA by the Employees' Compensation Appeals Board and a federal appeals court, the federal government has no legal basis to obtain refunds from third parties for the first 45 days of absence from work (called the continuation-of-pay (COP) period).

Recoveries from third parties continue to be allowed for payments of compensation benefits following the COP period and for medical benefits.

Based on the current interpretation of FECA, employees can receive regular salary payments from their employing agencies and reimbursements from third parties—in effect, a double recovery of income for their first 45 days of absence from work due to injuries for which third parties were was responsible. We recommended that the Congress amend FECA to expressly provide for refunds of amounts paid as COP when employees receive third-party recoveries. CBO estimates that the following savings could be achieved if the Congress redefined COP so that it could be included in amounts employees are required to reimburse the government when they recover damages from third parties.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Discretionary spending					
Savings from the 2002 baseline					
Budget authority	*	1	2	2	2
Outlays	*	1	2	2	2

Source: Congressional Budget Office.

*Savings of less than $500,000.

Comparability of FECA and Other Compensation Laws

We identified three major ways in which FECA differs from other federal and state workers' compensation laws, each of which results in relatively greater benefits under FECA. First, FECA authorizes maximum weekly benefit amounts that are greater than those authorized by other federal and state workers' compensation laws. As of January 1, 2001, maximum authorized weekly FECA benefits were equal to $1,495, 75 percent of the base salary of a GS-15, step 10. FECA also authorizes additional benefits for one or more dependents equal to 8.33 percent of salary. Only seven states authorize additional benefits for dependents, ranging from $5 to $10 per week per dependent, with total benefits not exceeding maximum authorized benefit amounts. Finally, FECA provides eligible workers who suffer traumatic injuries with their regular salary for a period not to exceed 45 days. Compensation benefits for wage loss begin on the 48th day, after a

3-day waiting period. All other federal and state workers' compensation laws provide for a 3- to 7-day waiting period following the injury before paying compensation benefits. In either case, if employees continue to be out of work for extended periods ranging from 5 to 42 days, depending on the jurisdiction, retroactive benefits to cover the waiting period would be paid.

Reducing FECA's authorized maximum weekly benefit to make it comparable to other compensation laws would have little effect on compensation costs because very few federal workers receive maximum benefits. However, eliminating augmented compensation benefits for dependents and establishing a 5-day waiting period immediately following the injury, and before the continuation of pay period, would produce the following savings, as estimated by CBO.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Discretionary spending					
Savings from the 2002 baseline					
Budget authority	10	13	22	31	40
Outlays	10	13	22	31	40

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Direct spending					
Savings from the 2001 baseline					
Budget authority	6	11	12	12	12
Outlays	6	11	12	12	12

Source: Congressional Budget Office.

Related GAO Products

Federal Employees' Compensation Act: Percentages of Take-Home Pay Replaced by Compensation Benefits (GAO/GGD-98-174, Aug. 17, 1998).

Federal Employees' Compensation Act: Issues Associated with Changing Benefits for Older Beneficiaries (GAO/GGD-96-138BR, Aug. 14, 1996).

Workers' Compensation: Selected Comparisons of Federal and State Laws (GAO/GGD-96-76, Apr. 3, 1996).

Federal Employees' Compensation Act: Redefining Continuation of Pay Could Result in Additional Refunds to the Government (GAO/GGD-95-135, June 8, 1995).

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Increase Congressional Oversight of PBGC's Budget

Authorizing committees	Health, Education, Labor and Pensions (Senate) Education and the Workforce (House)
Appropriation committees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Labor
Accounts	Pension Benefit Guaranty Corporation fund (16-4204)
Spending type	Direct/Discretionary
Budget subfunction	601/General retirement and disability insurance
Framework theme	Reassess objectives

The Pension Benefit Guaranty Corporation (PBGC) insures the benefits of more than 43 million participants against default of their employer-sponsored defined benefit pension plans. Established in 1974 as a self-financing government corporation, PBGC's primary responsibility is to assume administration of underfunded plans that either terminate or become insolvent. In 2000, about 227,000 retirees received over $903 million in benefit payments from PBGC. To carry out its operations, PBGC relies heavily on the services of contractors whose headquarters and field employees account for almost half of its workforce.

PBGC is self-financing in that it receives no general revenues. Its operating budget of $177 million is financed with funds from two sources: (1) insurance premiums paid by plan sponsors and (2) trust assets. However, the portion of its budget allocated to administrative expenses has been subject to a statutory limitation since 1985. The Congress revised this limitation on two occasions to provide PBGC more flexibility to address workload increases that followed several large pension plan failures. These revisions exempted from any limitation all expenses incurred in connection with the termination and management of pension plans and provided PBGC with discretion to determine which functions and activities qualified as such. Over time, PBGC has expanded the range of activities and functions classified as nonlimitation expenses and currently uses these resources to fund nearly all of its operations. This has resulted in a steep increase in PBGC's nonlimitation budget from $29 million in fiscal year 1989 to $165 million in fiscal year 2001. During this period, PBGC's

limitation budget decreased from $40 million to $13 million. Thus, by fiscal year 1999, only 75 federal employees were funded out of PBGC's limitation budget, which receives shared OMB and congressional review and approval. The remaining 1,359 employees were funded out of PBGC's nonlimitation budget, which is primarily subject to review and approval by OMB rather than the Congress.

We recently reported that PBGC's failure to strategically manage its longer-term contracting needs, as well as weaknesses in its contractor selection and oversight processes, could result in the corporation paying too much for procured services. We also noted that PBGC's budget structure provides it with substantial flexibility to use nonlimitation funds that are not directly subject to congressional review and approval. This budgetary treatment shields most corporation spending for administration and operations from congressional scrutiny, creating a potentially favorable environment for management weaknesses.

As a means of strengthening its oversight over PBGC's budget and operations, the Congress could act to restrict the range of activities to be supported by nonlimitation funds. This, however, would likely require a similar increase in PBGC's limitation budget in which the Congress has direct appropriations oversight. Thus, more of PBGC's spending for operational activities and functions would fall within the normal congressional appropriations process. Although this approach would not necessarily reduce PBGC's administrative spending initially, strengthened oversight could result in management improvements, more efficient use of funds, and slower spending growth in the future. CBO was unable able to estimate savings from this option without a more specific proposal.

Related GAO Product

Pension Benefit Guaranty Corporation: Contracting Management Needs Improvement (GAO/HEHS-00-130, Sept. 18, 2000).

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Share the Savings from Bond Refundings

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Financial Services (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Housing and Urban Development
Account	Housing Certificate Fund (86-0319)
Spending type	Discretionary/Direct
Budget subfunction	604/Housing assistance
Framework theme	Redefine beneficiaries

During the 1970s and early 1980s, HUD administered programs to develop housing for low-income households using various types of financing arrangements and long-term Section 8 rental housing assistance contracts. While some properties were financed by loans and grants from HUD, others were financed by bonds issued by state and local housing finance agencies. During the late 1970s and early 1980s, the cost to finance housing development rose to unprecedented levels. In response, HUD authorized higher Section 8 rental assistance payments to cover the higher bond financing costs, first in 1980 and then in 1981. Since then, as interest rates declined, many state and local housing finance agencies have refunded the bonds they issued and issued new bonds at lower interest rates. This action has generated substantial savings for the state agencies. These savings represent the difference between the amounts needed to repay the original bonds and the lower amounts needed to repay the new bonds. Agencies typically use these savings to provide affordable housing in their states.

In 1999, we reported that HUD had not issued clear guidance on when state agencies are required to share the savings associated with bond refundings with the federal government. The need for clearer guidance specifically relates to state agency compliance with the bond refunding provisions in an October 1992 amendment to Section 1012 of the McKinney Act. The amendment was unclear as to whether the states were required to share the savings from bond refundings with the federal government for all properties covered by Section 8 rental assistance contracts that were entered into from 1979 through 1984. In the absence of clear guidance from

HUD, we found that some state agencies have shared the savings from bond refunding for such properties with the federal government while other agencies have retained the savings.

Legislative changes could be made to clarify the Congress' intent that state agencies should be required to share bond refunding savings with the federal government for all properties covered by Section 8 rental assistance contracts entered into from 1979 through 1984. CBO agrees that there could be savings but does not have nationwide data to quantify the savings amount.

Related GAO Product

Multifamily Housing: HUD Missed Opportunities to Reduce Costs on Its Uninsured Section 8 Portfolio (GAO/RCED-99-217, July 30, 1999).

GAO Contact

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Implement a Service Fee for Successful Non-Temporary Assistance for Needy Families Child Support Enforcement Collections

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of Health and Human Services
Account	Family Support Payments to States (75-1501)
Spending type	Direct
Budget subfunction	609/Other income security
Framework theme	Redefine beneficiaries

The purpose of the Child Support Enforcement Program is to strengthen state and local efforts to obtain child support for both families eligible for Temporary Assistance for Needy Families (TANF) and non-TANF 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 1998, non-TANF caseloads and costs rose about 500 percent and 1200 percent, respectively. While states have the authority to fully recover the costs of their services, states have exercised their discretion and charged only minimal application and service fees. Thus, they are doing little to recover the federal government's 66 percent share of program costs. In fiscal year 1998, for example, state fee practices returned about $49 million of the estimated $2.1 billion spent to provide non-TANF services.

Since 1992, we have reported on opportunities to defray some of the costs of child support programs. Based on this work, we believe that mandatory application fees should be dropped and that states should be mandated to charge a minimum percentage service fee on successful collections for non-TANF families. Congressional action is necessary to put such a requirement in place. Application fees are administratively burdensome, and a service fee would ensure that families are charged only when the service has been successfully performed. The costs recovered from such a service fee would be determined by the percentage rate set by the Congress. For example, CBO estimates that if the Congress set the service fee at 5 percent for each successful non-TANF child support collection, the federal government could recover $2 billion in 5 years. The following savings estimate is based on states implementing this option beginning October 1, 2002.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the CBO baseline					
Budget authority	460	500	540	590	630
Outlays	460	500	540	590	630

Note: Estimate assumes that all fees collected are split between the federal and state government at the administrative cost match rate: 66 percent federal and 34 percent state.

Source: Congressional Budget Office.

Related GAO Products

Child Support Enforcement: Effects of Declining Welfare Caseloads Are Beginning to Emerge (GAO/HEHS-99-105, June 30, 1999).

Welfare Reform: Child Support an Uncertain Income Supplement for Families Leaving Welfare (GAO/HEHS-98-168, Aug. 3, 1998).

Child Support Enforcement: Early Results on Comparability of Privatized and Public Offices (GAO/HEHS-97-4, Dec. 16, 1996).

Child Support Enforcement: Reorienting Management Toward Achieving Better Program Results (GAO/HEHS/GGD-97-14, Oct. 25, 1996).

Child Support Enforcement: States' Experience with Private Agencies' Collection of Support Payments (GAO/HEHS-97-11, Oct. 23, 1996).

Child Support Enforcement: States and Localities Move to Privatized Services (GAO/HEHS-96-43FS, Nov. 20, 1995).

Child Support Enforcement: Opportunity to Reduce Federal and State Costs (GAO/T-HEHS-95-181, June 13, 1995).

GAO Contact

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Improve Reporting of DOD Reserve Employee Payroll Data to State Unemployment Insurance Programs

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of Labor
Account	Unemployment Trust Fund (20-8042)
Spending type	Direct
Framework theme	Redefine beneficiaries

The Congress established the national unemployment insurance (UI) system in the 1930s to provide partial income assistance to many temporarily unemployed workers with substantial work histories. Today, UI is the major federal program providing assistance to the unemployed. Many workers covered by the UI system are also among the 1.25 million personnel participating in the National Reserve forces (Army National Guard, Army Reserve, Naval Reserve, Marine Corps Reserve, Air National Guard, Air Force Reserve, and the Coast Guard Reserve).

Most UI claimants are required to report the income they receive while in the Reserves so that state UI programs can reduce their benefits accordingly. Our analysis of benefit and Reserve data from seven states shows that some Reserve personnel are receiving improper benefit payments from state UI programs. In the seven states in our analysis, we estimate that UI claimants who were active participants in the Reserve failed to report over $7 million in Reserve income in fiscal year 1994. This led to UI benefit overpayments of approximately $3.6 million, of which federal trust fund losses were about $1.2 million. We expect that the federal and state trust fund losses from all UI programs are much greater because the seven states we reviewed account for only 27 percent of all reservists.

State officials cited various reasons why claimants may not be reporting their Reserve income while receiving UI benefits. According to state officials, the claimants may not understand their reporting responsibilities, are often not specifically informed of these responsibilities, and may have incentives not to report all Reserve income—incentives that are amplified by the states' limited ability to detect nonreporting.

The Defense Department and the Department of Transportation's Coast Guard have recently acted to ensure that reservists are reminded of their responsibility to report income from reserve activity to state UI agencies. All reservists now receive an annual notice with their leave and earnings statements reminding them of their duty to disclose their affiliation and any Reserve related earnings when filing an UI claim. In addition, the Labor Department has issued a directive to all state employment security agencies to ensure that they inform prospective and continuing UI benefit claimants of their responsibility to report Reserve related income.

These actions should improve general reservist compliance with state UI program income reporting requirements. However, to detect unreported Reserve income, the most frequently suggested alternative by federal and state officials would be to require the Department of Defense (DOD) to report Reserve payroll and personnel data to states on a quarterly basis, as private-sector employers are required to do, to permit verification of claimant income regularly. DOD has stated that it will develop an action plan to provide such data to the state UI programs. However, completion of this plan has been delayed because of other competing agency priorities and a recognition that the task was more complex than originally envisioned.

It is important to note that the nonreporting of claimant income appears to be a broader problem involving all UI claimants who were former federal civilian and military employees, rather than just those participating in the Reserves. Officials from many of the state programs we analyzed reported general difficulties in monitoring reported income from claimants who were former federal employees.

DOD has made initial efforts to develop an action plan to implement it. However, it now reports that, given its effort to ensure any action taken be cost-effective and commensurate with potential savings, it does not intend to take further action to respond to this recommendation. According to DOD, 13 states effectively exempt reserve wages from any unemployment insurance payment offset, and there could be significant costs associated with providing automated data on the earnings of part-time reservists. We do not agree that implementation costs would necessarily outweigh savings. We found millions of dollars in unemployment insurance overpayments for just 7 states and 27 percent of the reservists, which would likely lead to even greater levels of overpayments for the remaining states that offset reservist wages.

If DOD was required to report Reserve payroll and personnel data to states on a quarterly basis, CBO estimates that the savings shown in the table would result from the reduction in overpayments.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the CBO baseline					
Budget authority	9	10	10	10	11
Outlays	9	10	10	10	11
Reduction in receipts	0	1	3	6	8
Net effect on deficit	9	9	7	5	3

Note: Unemployment Insurance trust fund receipts are dependent on prior year benefit outlays. CBO estimates that, in addition to savings, this option would have the effect of reducing trust fund receipts in the out years.

Source: Congressional Budget Office.

Related GAO Product

Unemployment Insurance: Millions in Benefits Overpaid to Military Reservists (GAO/HEHS-96-101, Aug. 5, 1996).

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Improve Social Security Benefit Payment Controls

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Social Security Administration
Accounts	Federal Old Age and Survivor's Insurance Trust Fund (20-8006)
Spending type	Direct
Budget subfunction	651/Social security
Framework theme	Improve efficiency

Social Security Administration (SSA) is required by law to reduce social security benefits to persons who also receive a pension from noncovered employment (typically persons who work for the federal government or state and local governmental agencies). The Government Pension Offset provision requires SSA to reduce benefits to persons whose social security entitlement is based on another person's social security coverage (usually their spouse's). The Windfall Elimination Provision requires SSA to use a modified formula to calculate a person's earned social security benefit whenever a person also earned a pension through a substantial career in noncovered employment. The modified formula reduces the social security benefit significantly.

We found that SSA payment controls for these offsets were incomplete. For state and local retirees, SSA had no third-party pension data to verify whether persons were receiving a noncovered pension. At the time of our report (1998), an analysis of available data indicated that this lapse in payment controls for state and local government retirees cost the trust funds between $129 million to $323 million from 1978 to about 1995.

We have recommended that SSA work with the Internal Revenue Service (IRS) to revise the reporting of pension income on IRS tax form 1099R. IRS has advised SSA that it needs a technical amendment to the Tax Code to obtain the information SSA needs. We believe that millions of dollars in reduced overpayments could be achieved each year with better payment controls. However, it should be noted that these savings would be offset somewhat by administrative costs associated with conducting additional computer matching at SSA. CBO estimates that improved payment controls could result in the savings shown in the table below.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Direct spending					
Savings from the CBO Baseline					
Budget authority	0	20	60	75	80
Outlays	0	20	60	75	80

Source: Congressional Budget Office.

Related GAO Product

Social Security: Better Payment Controls for Benefit Reduction Provisions Could Save Millions (GAO/HEHS-98-76, Apr. 30, 1998).

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Simplify Supplemental Security Income Recipient Living Arrangements

Authorizing committees	Finance (Senate) Ways and Means (House)
Appropriations subcommittees	Labor, HHS, Education and Related Agencies (Senate and House)
Primary agency	Social Security Administration
Accounts	Supplemental Security Income Program (28-0406)
Spending type	Direct/Discretionary
Budget subfunction	609/Other income security
Framework theme	Improve efficiency

Social Security Administration (SSA) administers the Supplemental Security Income (SSI) program, which is the nation's largest cash assistance program for the poor. Since its inception, the SSI program has been difficult to administer because, similar to other means tested programs, it relies on complicated criteria and policies to determine initial and continuing eligibility and benefit levels. One of the factors considered is the living arrangements of the beneficiary. When determining SSI eligibility and benefit amounts, SSA staff apply a complex set of policies to document an individual's living arrangements and any additional support they may be receiving from others. This process depends heavily on self-reporting by recipients of whether they live alone or with others; the relationships involved; the extent to which rent, food, utilities, and other household expenditures are shared; and exactly what portion of those expenses the individual pays. These numerous rules and policies have made living arrangement determinations one of the most complex and error prone aspects of the SSI program, and a major source of overpayments.

We recently reported that SSA has not addressed long-standing SSI living arrangement verification problems, despite numerous internal and external studies and many years of quality reviews denoting this as an area prone to error and abuse. Some of the studies we reviewed recommended ways to simplify the process by eliminating many complex calculations and thereby making it less susceptible to manipulation by recipients. Other studies we reviewed suggested ways to make this aspect of the program less costly to taxpayers. For example, in 1989, SSA's Office of Inspector General

reported that a more simplified process that applied a shared expenditures rationale to all SSI recipients living with another person would result in fewer errors and reduce annual overpayments by almost $80 million. Such a change would require legislative action by the Congress. In light of the potential cost savings associated with addressing this issue, we recommended in September 1998 that SSA develop and advance legislative options for simplifying SSI living arrangement policies and ultimately reduce program overpayments. SSA told us that it is continuing to study SSI living arrangement policies and may ultimately consider proposing legislative options for change.

Although CBO agrees that some changes that would simplify living arrangement policies have the potential to create savings, it cannot develop a savings estimate until a specific legislative proposal is identified.

Related GAO Product

Supplemental Security Income: Action Needed on Long-Standing Problems Affecting Program Integrity (GAO/HEHS-98-158, Sept. 14, 1998).

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Reduce Federal Funding Participation Rate for Automated Child Support Enforcement Systems

Authorizing committees	Finance (Senate) Ways and Means (House)
Appropriations subcommittees	Labor, HHS, Education and Related Agencies (Senate and House)
Primary agency	Department of Health and Human Services
Account	Family Support Payments to States (75-1501)
Spending type	Direct
Budget subfunction	609/Other income security
Framework theme	Improve efficiency

The Department of Health and Human Services' (HHS) Office of Child Support Enforcement (OCSE) oversees states' efforts to develop automated systems for the Child Support Enforcement Program. Established for both welfare and nonwelfare clients with children, this program is directed at locating parents not supporting their children, establishing paternity, obtaining court orders for the amounts of money to be provided, and collecting these amounts from noncustodial parents. Achievement of Child Support Enforcement Program goals depends in part on the effective planning, design, and operation of automated systems. The federal government is providing enhanced funding to develop these automated child support enforcement systems by paying up to 90 percent of states' development costs. From fiscal year 1981 through fiscal year 1999, the states have spent about $4.5 billion to develop these systems, including about $3.3 billion from the federal government.

The 90 percent funding participation rate was initially discontinued at the end of fiscal year 1995, the congressionally mandated date for the systems to be certified and operational. However, the Congress subsequently extended the deadline for these systems to the end of fiscal year 1997. The federal government will continue to reimburse states' costs to operate these systems at the 66 percent rate established for administrative expenses. Finally, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193) provided additional funding for the states to meet new systems requirements under this law. An 80 percent federal funding participation rate, with a total national funding cap of $400 million was authorized through fiscal year 2001. The 66 percent

federal funding participation rate was continued for systems operation and administrative expenses.

The Congress could choose to reduce the federal funding participation rate for modification and operation of these systems from 66 percent to the 50 percent rate now common for such costs in other programs, such as Food Stamps and other welfare programs. CBO estimates that a reduced participation rate would produce the following savings.

Five-Year Savings

Dollars in millions

	FY03	FY04	FY05	FY06	FY07
Savings from the CBO baseline					
Budget authority	215	230	250	265	275
Outlays	215	230	250	265	275

Source: Congressional Budget Office.

Related GAO Products

Child Support Enforcement: Leadership Essential to Implementing Effective Automated Systems (GAO/T-AIMD-97-162, Sept. 10, 1997).

Child Support Enforcement: Strong Leadership Required to Maximize Benefits of Automated Systems (GAO/AIMD-97-72, June 30, 1997).

Child Support Enforcement: Timely Action Needed to Correct System Development Problems (GAO/IMTEC-92-46, Aug. 13, 1992).

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

GAO Contact

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Obtain and Share Information on Medical Providers and Middlemen to Reduce Improper Payments to Supplemental Security Income Recipients

Authorizing committees	Finance (Senate) Ways and Means (House)
Appropriation committees	Labor, HHS, Education, and Related Agencies (Senate and House)
Primary agency	Social Security Administration
Accounts	Supplemental Security Income Program (28-0406)
Spending type	Direct/Discretionary
Budget subfunction	609/Other income security
Framework theme	Improve efficiency

The Supplemental Security Income (SSI) program guarantees a minimum level of income for needy aged, blind, or disabled individuals. In FY 2000, the SSI program paid 6.6 million recipients about $31 billion in benefits.

Over the years, some SSI recipients may have improperly gained access to program benefits by feigning or exaggerating disabilities with the help of middlemen (particularly interpreters) and medical providers. Although it is not possible to know the exact number of beneficiaries who became eligible for benefits through these practices, analysis suggests that the SSI program is vulnerable to this type of fraud and abuse. First, in an April 1998 sample, GAO found that more than 60 percent of the SSI beneficiaries suffer from mental and physical impairments that are difficult to objectively verify. Second, medical providers who were investigated for defrauding Medicaid, Medicare, or private insurance companies provided at least some of the medical evidence for 6 percent of the 208,000 disabled SSI recipient cases we reviewed in six states. Third, over 96 percent of the 158 SSA officials and staff that we interviewed said that they believed that the practice of middlemen helping people improperly qualify for SSI benefits has continued. SSA has tried to address this problem by developing ways to better identify and assess the initial or continuing eligibility of applicants and recipients who may be feigning disabilities. The agency has not, however, taken steps to systematically obtain and distribute information on various medical providers and middlemen that would better help identify such applicants and recipients. These steps are important because past experiences have shown that a single middleman or medical provider can help hundreds of ineligible beneficiaries get on the

rolls. Every individual who obtains benefits by feigning or exaggerating disabilities will cost the federal government an estimated $122,000 in SSI and Medicaid benefits over the 10-year period 1999 through 2009.

In order to reduce the number of improper claims under the SSI program, the Congress could consider requiring SSA to systematically obtain information on various middlemen and service providers and routinely share it throughout SSA. Such information could be collected from other government agencies and private entities that also face similar fraud and abuse issues as well as from SSA staff. SSA could use this information, for example to determine which claims should receive increased scrutiny to prevent applicants from receiving improper benefits and to target investigations of current beneficiaries to determine if they should be removed from the program. Although CBO agrees that efforts to reduce fraud in the SSI program through greater information sharing about medical providers and middleman have the potential to create savings, it cannot develop a savings estimate until a specific legislative proposal is identified.

Related GAO Products

Supplemental Security Income: Additional Action Needed to Reduce Program Vulnerability to Fraud and Abuse (GAO/HEHS-99-151, Sept. 15, 1999).

Supplemental Security Income: Disability Program Vulnerable to Applicant Fraud When Middlemen Are Used (GAO/HEHS-95-116, Aug. 31, 1995).

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Provide Congress More Information to Assess the Performance of the Special Supplemental Nutrition Program for Women, Infants, and Children

Authorizing committees	Health, Education, Labor and Pensions (Senate) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Agriculture
Accounts	Special Supplemental Nutrition Program for Women, Infants, and Children (12-3510)
Spending type	Discretionary
Budget subfunction	605/Food and Nutrition Assistance
Framework theme	Reassess objective

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) is a federally funded $4.1 billion-a-year nutrition assistance program administered by the U.S. Department of Agriculture's Food and Nutrition Service (FNS). FNS provides annual cash grants to support program operations at 88 state-level agencies that employ more than 1,800 local WIC agencies to administer the program. FNS grants are used to support three main activities—nutrition education, breastfeeding promotion and support, and health referrals. The state agencies develop guidelines intended to ensure that local agencies effectively deliver WIC benefits to eligible participants, and monitor agencies' compliance with these guidelines. Local agencies serve participants directly or through one or more service delivery sites or clinics. Staff at local WIC agencies and clinics approve applicants for participation, provide food benefits, and make health referrals.

FNS has an outcome-based measure for one of its three nutrition services—breastfeeding promotion and support. However, the measure, breastfeeding initiation rate, examines only one of several important aspects of the service's possible impact on WIC participants. Other key aspects, for which FNS has not established outcome measures, include the length of time that WIC mothers breastfeed their infants and breastfeeding's contribution to an infant's overall nutritional needs. Several obstacles have hindered FNS' efforts to develop and implement outcome-based measures for nutrition education and health referral services. These include difficulties in identifying measures that would allow the agency to appropriately link a particular service's activity to a

desired outcome and resource constraints affecting FNS' ability to collect data needed to implement a proposed measure.

Given the size and the importance of the WIC program and the apparent lack of outcome-based performance measures, Congress may want to require that the Department of Agriculture initiate a more active oversight role to assess the impact of the program. Until there is a clearer understanding of the extent to which child nutrition needs are being met, and the extent that any improvement can be attributed to the WIC program, it will be difficult for Congress to truly know to what extent this important program is improving child nutrition.

Related GAO Product

Food Assistance: Performance Measures for Assessing Three WIC Services (GAO-01-339, Feb 28, 2001).

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700 Veterans Benefits and Services

Revise VA's Disability Ratings Schedule to Better Reflect Veterans' Economic Losses
Discontinue Veterans' Disability Compensation for Nonservice Connected Diseases
Increase Cost Sharing for Veterans' Long-Term Care
Reassess Unneeded Health Care Assets within the Department of Veterans Affairs
Reducing VA Inpatient Food and Laundry Service Costs

Revise VA's Disability Ratings Schedule to Better Reflect Veterans' Economic Losses

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 and Pensions (36-0153)
Spending type	Direct
Budget subfunction	701/Income security for veterans
Framework theme	Reassess objectives

The Department of Veterans Affairs' (VA) disability program is required by law to compensate veterans for the average loss in earning capacity in civilian occupations that results from injuries or conditions incurred or aggravated during military service. Veterans with such service-connected disabilities are entitled to monthly cash benefits under this program even if they are working and regardless of the amount they earn. The amount of compensation received is based on disability ratings that VA assigns to the service-connected conditions. In fiscal year 2000, VA paid more than $19 billion in compensation to about 2.3 million veterans, and more than 300,000 veterans' survivors and children, for these service-connected disabilities.

The disability ratings schedule that VA currently uses is still primarily based on physicians' and lawyers' judgments made in 1945 about the effect service-connected conditions had on the average individual's ability to perform jobs requiring manual or physical labor. Although the ratings in the schedule have not changed substantially since 1945, dramatic changes have occurred in the labor market and in society. The results of an economic validation of the schedule conducted in the late 1960s indicated that ratings for many conditions did not reflect the actual average loss in earnings associated with them. Therefore, it is likely that some of the ratings in the schedule do not reflect the economic loss experienced by veterans today. Hence, the schedule may not equitably distribute compensation funds among disabled veterans.

The Congress may wish to consider directing VA to determine whether the ratings for conditions in the schedule correspond to veterans' average loss in earnings due to these conditions and adjust disability ratings

accordingly. Generally accepted and widely used approaches exist to statistically estimate the effect of specific service-connected conditions on veterans' average earnings. These estimates could be used to set disability ratings in the schedule that are appropriate in today's socioeconomic environment. The cost to collect the data to produce these estimates was projected to be between $5 million and $10 million, which would be a small fraction of the more than $19 billion VA pays annually in disability compensation to veterans and their families. Any savings associated with this option would depend on how the new disability schedule alters payments to beneficiaries. A reexamination of the disability schedule could find that some conditions are overpaid while others may require increased payments. CBO is unable to estimate any costs or savings that could result because a specific proposal for revising the disability ratings schedule has not been presented.

Related GAO Product

VA Disability Compensation: Disability Ratings May Not Reflect Veterans' Economic Losses (GAO/HEHS-97-9, Jan. 7, 1997).

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Discontinue Veterans' Disability Compensation for Nonservice Connected Diseases

Authorizing committees	Veterans Affairs (Senate and House)
Appropriations subcommittee	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Veterans Affairs
Account	Compensation and Pensions (36-0153)
Spending type	Direct
Budget subfunction	701/ncome security for veterans
Framework theme	Redefine beneficiaries

In fiscal year 1999, the Department of Veterans Affairs (VA) paid about $18 billion in compensation to about 2.3 million veterans for service-connected disabilities. A disease or injury resulting in disability is considered service-connected if it was incurred or aggravated during military service. No causal connection is required. In 1989, GAO reported on the U.S. practice of compensating veterans for conditions that were probably neither caused nor aggravated by military service. These conditions included diabetes, chronic obstructive pulmonary disease, arteriosclerotic heart disease, and multiple sclerosis. In 1993, GAO reported that other countries were less likely to compensate veterans when diseases are unrelated to military service, when the relationship of the disease to military service could not be established, or for off-duty injuries such as those that happen while on vacation.

The Congress may wish to reconsider whether diseases neither caused nor aggravated by military service should be compensated as service-connected disabilities. In 1996, the Congressional Budget Office (CBO) reported that about 230,000 veterans were receiving about $1.1 billion in disability compensation payments annually for diseases neither caused nor aggravated by military service. If disability compensation payments to veterans with nonservice connected, disease-related disabilities were eliminated in future cases, CBO estimates that the following savings would apply.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 baseline					
Budget authority	71	221	411	556	676
Outlays	65	208	400	551	670

Note: These estimates take into account an increase in DOD retirement pay.

Source: Congressional Budget Office.

Related GAO Products

VA Disability Compensation: Disability Ratings May Not Reflect Veterans' Economic Losses (GAO/HEHS-97-9, Jan. 7, 1997).

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

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

GAO Contact

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Increase 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	703/Hospital and medical care for veterans
Framework theme	Redefine beneficiaries

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. Many other states also conduct estate recoveries. In contrast, in fiscal year 2001, the Department of Veterans Affairs (VA) offset an estimated less than one-tenth of 1 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.

In the Veterans' Millenium Health Care and Benefits Act of November 30, 1999, Congress required VA to increase cost sharing for those veterans without service-connected disabilities who use nursing home care, but VA has not yet issued rules to establish these cost-sharing amounts. To implement this requirement, VA may wish to establish cost sharing rules for such care by (1) adopting cost-sharing requirements similar to those imposed by most state veteran's homes and (2) implementing an estate recovery program similar to those operated by many states under their Medicaid programs. If VA recovered either 25 or 50 percent of its costs of providing nursing home and domiciliary care to veterans with nonservice connected disabilities through a combination of costsharing and estate recoveries, the savings shown in the following table would apply, as estimated by CBO.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 baseline					
Option: Recovery of 25 percent of costs					
Budget authority	596	615	634	654	675
Outlays	596	615	634	654	675

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY05	FY07
Savings from the 2002 baseline					
Option: Recovery of 50 percent of costs					
Budget authority	1,194	1,232	1,272	1,311	1,354
Outlays	1,194	1,232	1,272	1,311	1,354

Source: Congressional Budget Office.

Related GAO Products

VA Aid and Attendance Benefits: Effects of Revised HCFA Policy on Veterans' Use of Benefits (GAO/HEHS-97-72R, Mar. 3, 1997).

VA Health Care: Better Data Needed to Effectively Use Limited Nursing Home Resources (GAO/HEHS-97-27, Dec. 20, 1996).

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, Aug. 12, 1992).

GAO Contact

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Reassess Unneeded Health Care Assets within the Department of Veterans Affairs

Authorizing committees	Veterans Affairs (House and Senate)
Appropriations subcommittees	VA, HUD, and Independent Agencies (House and Senate)
Primary agency	Department of Veterans Affairs
Account	Medical Care (36-0160)
Spending type	Discretionary
Budget subfunction	703/Hospital and medical care for veterans
Framework theme	Improve efficiency

The Department of Veterans Affairs (VA) owns 4,700 buildings and 18,000 acres of land, which it uses to operate 181 major health care delivery locations. These locations operate in 106 health care markets nationwide. These include 40 markets where multiple VA facilities compete with each other to serve veterans (115 locations) and 66 markets served by a single VA delivery location. VA spends a sizeable portion of its $21 billion health care budget to operate, maintain, and improve its delivery locations. All VA delivery locations project a declining veteran population base for their primary market areas, with two-thirds expecting declines greater than 33 percent over the next 20 years. Without a major restructuring, billions of dollars will be used in the operation of hundreds of unneeded VA buildings over the next several years.

In November 2000, VA contracted with a private consulting firm to conduct rigorous analyses of its networks. Such analyses are to include a determination of veterans' health care needs in each network and alternatives analyses to enable VA to evaluate options for meeting needs in the most cost-effective manner. In June 2001, VA proposed an asset realignment plan for its Great Lakes Health Care System, which is estimated to yield savings of $720 million over the next 20 years. Following receipt of public comments, VA plans to finalize its realignment plan. In future years, VA plans to complete asset realignment plans for other networks.

Although CBO agrees that reducing unneeded health care assets at the VA has the potential to create savings, it cannot develop a savings estimate until a specific legislative proposal is identified.

Related GAO Products

VA Health Care: VA Is Struggling to Address Asset Realignment Challenges (GAO/T-HEHS-00-88, Apr. 5, 2000).

VA Health Care: Improvements Needed in Capital Asset Planning and Budgeting (GAO/HEHS-99-145, Aug. 13, 1999).

VA Health Care: Challenges Facing VA in Developing an Asset Realignment Process (GAO/T-HEHS-99-173, July 22, 1999).

Veterans' Affairs: Progress and Challenges in Transforming Health Care (GAO/T-HEHS-99-109, Apr. 15, 1999).

VA Health Care: Capital Asset Planning and Budgeting Need Improvement (GAO/T-HEHS-99-83, Mar. 10, 1999).

VA Health Care: Closing a Chicago Hospital Would Save Millions and Enhance Access to Services (GAO/HEHS-98-64, Apr. 16, 1998).

VA Health Care: Opportunities to Enhance Montgomery and Tuskegee Service Integration (GAO/T-HEHS-97-191, July 28, 1997).

VA Health Care: Lessons Learned From Medical Facility Integrations (GAO/T-HEHS-97-184, July 24, 1997).

Department of Veterans Affairs: Programmatic and Management Challenges Facing the Department (GAO/T-HEHS-97-97, Mar. 18, 1997).

VA Health Care: Opportunities for Service Delivery Efficiencies Within Existing Resources (GAO/HEHS-96-121, July 25, 1996).

VA Health Care: Opportunities to Increase Efficiency and Reduce Resource Needs (GAO/T-HEHS-96-99, Mar. 8, 1996).

VA Health Care: Challenges and Options for the Future (GAO/T-HEHS-95-147, May 9, 1995).

GAO Contact

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Reducing VA Inpatient Food and Laundry Service Costs

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 (VA) (35-0160)
Spending type	Discretionary
Budget subfunction	703/Hospital and Medical Care for Veterans
Framework theme	Improve efficiency

The Department of Veterans Affairs (VA) provides inpatient food services and laundry processing for more than 36,000 inpatients a day in hospitals, nursing homes, and domiciliaries at 177 inpatient locations. VA spends about $324 million and $52 million, respectively, for these activities and employs 7,000 Nutrition and Food Service (NFS) wage-grade workers, not including dietitians and 1,100 laundry processing workers. The NFS workers cook and prepare food, distribute food to patients, and retrieve and wash plates, trays, and utensils. The laundry processing workers sort, wash, dry, fold, and transport laundry.

VA has downsized its inpatient volume by 35 percent over the last 5 years while it has increased its outpatient volume. The total number of patients treated has increased from 2.9 to 3.6 million. As a result of the reduction in inpatient volume, the volume of inpatient food and laundry services has declined. In food services, VA has consolidated 28 of its food production locations into 10, began using less expensive Veterans Canteen Service (VCS) workers in 9 locations, and contracted out in 2 locations. For laundry services, VA has consolidated 116 of its laundries into 67 locations and used competitive sourcing to contract with the private sector to operate 2 VA laundries and to contract with 10 commercial laundries.

VA has the potential to further reduce its inpatient food service and laundry costs by systematically assessing, at all its health care delivery locations, options it is already using at some of its health care locations. For example, using the benchmark of employees to food service volume at the consolidated Central Texas Health Care System, the Congress could require VA to consolidate 63 food production locations within a 90-minute driving distance of each other into 29 production locations. Also, the Congress

could require VA to use less expensive VCS employees at all inpatient food locations. Competitive sourcing between in-house and private sector operations is more cost-effective and could also save additional food service costs. The Congress could also require VA to consolidate its laundry operations. Using VA's laundry productivity standard of 160,000 pounds per employee, VA could close 13 laundries and consolidate their workload at other laundries within a 4-hour drive. Finally, competitive sourcing to determine if VA-owned and operated laundries, private operation of VA-owned laundries, or commercial laundries are most cost effective could save additional laundry costs. If Congress required VA to consolidate and competitively bid its food service and laundry operations and use VCS employees at all impatient food locations, CBO estimates that the following budgetary savings could be achieved over 5 years.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 baseline					
Budget authority	4	40	82	98	101
Outlays	4	36	77	95	100

Source: Congressional Budget Office.

Related GAO Products

VA Health Care: Consolidations and Competitive Sourcing of Laundry Service Could Save Millions (GAO-01-61, Nov. 30, 2000).

VA Health Care: Expanding Food Service Initiatives Could Save Millions (GAO-01-64, Nov. 30, 2000).

VA Health Care: Laundry Service Operations and Costs (GAO/HEHS-00-16, Dec. 21, 1999).

VA Health Care: Food Service Operations and Costs at Inpatient Facilities (GAO/HEHS-00-17, Nov. 19, 1999).

GAO Contact

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800 General Government, 900 Net Interest, and 999 Multiple

Prevent Delinquent Taxpayers from Benefiting from Federal Programs
Target Funding Reductions in Formula Grant Programs
Adjust Federal Grant Matching Requirements
Replace the 1-Dollar Note with the 1-Dollar Coin
Eliminate Pay Increases after Separation in Calculating Lump-Sum Annual Leave Payments
Increase Fee Revenue from Federal Reserve Operations
Recognize the Costs Up-front of Long-Term Space Acquisitions
Seek Alternative Ways to Address Federal Building Repair Needs
Improper Benefit Payments Could Be Avoided or More Quickly Detected if Data from Various Programs Were Shared
Better Target Infrastructure Investments to Meet Mission and Results-Oriented Goals
Information Sharing Could Improve Accuracy of Workers' Compensation Offset Payments
Determine Feasibility of Locating Federal Facilities in Rural Areas

Prevent Delinquent Taxpayers from Benefiting from Federal Programs

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Redefine beneficiaries

The federal government's operations are funded primarily through tax revenue collected from the nation's taxpayers. In fiscal year 1999, the federal government, through the Internal Revenue Service (IRS), collected nearly $1.9 trillion in federal tax revenue to finance government operations. However, while most taxpayers comply with their tax obligation, a significant portion of taxpayers do not. Over time, this has led to unpaid taxes, penalties, and interest, which totaled about $231 billion at the end of fiscal year 1999. Of this amount, the IRS estimates that only $21 billion, or about 9 percent, will be collected.

A significant number of taxpayers, both individuals and businesses, who owe the federal government billions of dollars in delinquent taxes receive significant federal benefits and other federal payments. In addition to Social Security Administration benefit payments, federal civilian retirement payments, and federal civilian salaries, payments on federal contracts and Small Business Administration loans are also provided to these delinquent taxpayers. Currently, federal law does not prevent businesses or individuals from receiving federal payments or loans when they are delinquent in paying federal taxes.

The Office of Management and Budget's (OMB) Circular A-129 provides policies for the administration of federal credit programs. These policies specifically direct agencies to determine whether applicants are delinquent on any federal debt, including tax debt, and to suspend the processing of credit applications if applicants have outstanding tax debt until such time as the applicant pays the debt or enters into a payment plan. Unfortunately, these policies have not been effective in preventing the disbursement of federal dollars to individuals and businesses with delinquent taxes. On October 5, 2000, the House Committee on Government Reform voted unanimously to approve HR 4181, "The Debt Payment Incentive Act of 2000." The provisions of this bill are designed to enhance federal debt

collection by providing an incentive for debtors to pay delinquent taxes and to prohibit delinquent taxpayers from being able to obtain federal contracts and certain federal financial assistance. This bill could serve as an incentive for delinquent taxpayers seeking federal assistance to fulfill their tax obligations, thus improving overall compliance and reducing the federal government's balance of uncollectible tax assessments. CBO cannot score this option until a specific proposal is developed.

Related GAO Products

Debt Collection: Barring Delinquent Taxpayers From Receiving Federal Contracts and Loan Assistance (GAO/T-GGD/AIMD-00-167, May 9, 2000).

Unpaid Payroll Taxes: Billions in Delinquent Taxes and Penalty Assessments Are Owed (GAO/AIMD/GGD-99-211, Aug. 2, 1999).

Tax Administration: Billions in Self-Employment Taxes Are Owed (GAO/GGD-99-18, Feb. 19, 1999).

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Target Funding Reductions in Formula Grant Programs

Authorizing committees	Multiple
Appropriations subcommittees	Multiple
Primary agencies	Multiple
Accounts	Multiple
Spending type	Discretionary/Direct
Budget subfunctions	Multiple
Framework theme	Redefine beneficiaries

Many federal grant programs with formula-based distribution of funds to state and local governments are not well targeted to jurisdictions with high programmatic needs but comparatively low funding capacity. As a result, it is not uncommon that program recipients in areas with greater wealth and relatively lower needs may enjoy a higher level of services than available in harder pressed areas. Alternatively, these wealthier areas can provide the same level of services but at lower tax rates than harder pressed areas.

At a time when federal discretionary resources are increasingly constrained, better targeting of formula-based grant awards offers a strategy to bring down federal outlays by concentrating reductions in wealthier localities with comparatively fewer needs and greater capacity to absorb the cuts. At the same time, redesigned formulas could hold harmless the hardest pressed areas that are most vulnerable. For example, three entitlement programs—Medicaid, Foster Care, and Adoption Assistance—reimburse approximately 55 percent of eligible state spending, with the federal share ranging from a minimum of 50 to a maximum of 83 percent depending on the per capita income of the state. There are a variety of ways in which budgetary savings could be achieved to improve the targeting of these programs, including:

- Reduce the minimum federal reimbursement rate to below 50 percent. This example would focus the burden of the reduced federal share on those states with the highest per capita income. To the extent that per capita income provides a reasonable basis for comparing state tax bases, this example would require states with the strongest tax bases to shoulder the burden of a reduced federal share.

- Reduce federal reimbursement rates only for those states with comparatively low program needs and comparatively strong tax bases. Under this example, the matching formula could be revised to better reflect the relative number of people in need, geographic differences in the cost of services, and state tax bases. Under the revised formula, states with comparatively low need and strong tax bases would receive lower federal reimbursement rates while states with high needs and weak tax bases would continue to receive their current reimbursement percentage. This example would focus the burden of a reduced federal share in those states with the lowest need and the strongest ability to fund program services from state resources.

Many other formulas used to distribute federal grant funding do not recognize the different fiscal capacities of states to provide benefits from their own resources. Moreover, many of these formulas have not been reassessed for years or even decades. One option that would realize budgetary savings in nonentitlement programs such as these would be to revise the funding formula to reflect the strength of state tax bases. A new formula could be calibrated so that funding is maintained in states or local governments with weak tax bases in order to maintain needed program services but reduced in high tax base states to realize budgetary savings. Examples of these types of formula grant programs include the following.

- Federal Aid Highways: This program, the largest nonentitlement formula grant program, allocates funds among the states based on their historic share of funding. This approach reflects antiquated indicators of highway needs, such as postal road miles and the land area of the state.

- Community Development Block Grant: This program allocates funds among local governments based on housing age and condition, population, and poverty, and does not include a factor recognizing local wealth or fiscal capacity. For example, Greenwich, Connecticut, received five times more funding per person in poverty in 1995 than that provided to Camden, New Jersey, even though Greenwich, with per capita income six times greater than Camden, could more easily afford to fund its own community development needs. This disparity is due to the formula's recognition of older housing stock and population and its exclusion of fiscal capacity indicators.

An option that illustrates the potential savings from targeting formula grant programs is a 10 percent reduction in the aggregate total of all close-ended

or capped formula grant programs exceeding $1 billion.[13] The savings achieved through this option, as estimated by CBO, could serve as a benchmark for overall savings from this approach but should not be interpreted as a suggestion for across-the-board cuts. Rather, as the above examples indicate, the Congress may wish to 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	FY03	FY04	FY05	FY06	FY07
Discretionary spending					
Savings from the 2002 baseline					
Budget authority	3,156	4,264	4,388	4,509	4,690
Outlays	1,867	5,227	6,925	7,703	8,162

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Direct spending					
Savings from the CBO baseline					
Budget authority	5,478	5,703	5,675	5,622	5,649
Outlays	801	1,459	1,967	2,902	2,593

Source: Congressional Budget Office.

Related GAO Products

Formula Grants: Effects of Adjusted Population Counts on Federal Funding to States (GAO/HEHS-99-69, Feb. 26, 1999).

[13]In the transportation function, several very small, close-ended grants could not be easily isolated in the baseline and these are included in the estimate.

Medicaid Formula: Effects of Proposed Formula on Federal Shares of State Spending (GAO/HEHS-99-29R, Feb. 19, 1999).

Welfare Reform: Early Fiscal Effect of the TANF Block Grant (GAO/AIMD-98-137, Aug. 22, 1998).

Public Housing Subsidies: Revisions to HUD's Performance Funding System Could Improve Adequacy of Funding (GAO/RCED-98-174, June 19, 1998).

School Finance: State Efforts to Equalize Funding Between Wealthy and Poor School Districts (GAO/HEHS-98-92, June 16, 1998).

School Finance: State and Federal Efforts to Target Poor Students (GAO/HEHS-98-36, Jan. 28, 1998).

School Finance: State Efforts to Reduce Funding Gaps Between Poor and Wealthy Districts (GAO/HEHS-97-31, Feb. 5, 1997).

Federal Grants: Design Improvements Could Help Federal Resources Go Further (GAO/AIMD-97-7, Dec. 18, 1996).

Public Health: A Health Status Indicator for Targeting Federal Aid to States (GAO/HEHS-97-13, Nov. 13, 1996).

School Finance: Options for Improving Measures of Effort and Equity in Title: (GAO/HEHS-96-142, Aug. 30, 1996).

Highway Funding: Alternatives for Distributing Federal Funds (GAO/RCED-96-6, Nov. 28, 1995).

Ryan White Care Act of 1990: Opportunities to Enhance Funding Equity (GAO/HEHS-96-26, Nov. 13, 1995).

Department of Labor: Senior Community Service Employment Program Delivery Could Be Improved Through Legislative and Administrative Action (GAO/HEHS-96-4, Nov. 2, 1995).

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Adjust Federal Grant Matching Requirements

Authorizing committees	Multiple
Appropriations subcommittees	Multiple
Primary agency	Multiple
Account	Multiple
Spending type	Discretionary/Direct
Budget subfunction	Multiple
Framework theme	Redefine beneficiaries

Intergovernmental grants are a significant part of both federal and state budgets. From the first annual cash grant under the Hatch Act of 1887, the number of grant programs rose to more than 900 in 2000 with outlays of $284 billion, about 16 percent of total federal spending. Grants serve many purposes beyond returning resources to taxpayers in the form of state services. For example, grants can serve as a tool to supplement state spending for nationally important activities. However, if states use federal grant dollars to reduce (i.e., substitute for) their own spending for the aided program either initially or over time, the fiscal impact of federal grant dollars is reduced.

Public finance experts suggest that grants are unlikely to supplement completely a state's own spending, and thus some substitution is to be expected in any grant. Our review of economists' recent estimates of substitution suggests that every additional federal grant dollar results in less than a dollar of total additional spending on the aided activity. The estimates of substitution showed that about 60 cents of every federal grant dollar substitutes for state funds that states otherwise would have spent.

Our analysis linked substitution to the way in which most grants are designed. For example, many of the 87 largest grant programs did not include features, such as state matching and maintenance-of-effort requirements, that can encourage states to use federal funds as a supplement rather than a replacement for their own spending. While not every grant is intended to supplement state spending, proponents of grant redesign argue that if some grants incorporated more rigorous maintenance-of-effort requirements and lower federal matching rates, then fewer federal funds could still encourage states to contribute to approximately the same level of overall spending on nationally important

programs. Critics of this approach argue that such redesign would put a higher burden on states because they would have to finance a greater share of federally aided programs.

The savings that could be achieved from redesigning grants to increase their fiscal impact would depend on the nature of the design changes and state responses to those changes. For example, faced with more rigorous financing requirements, states might reduce or eliminate their own financial support for the aided activity. The outcome will be influenced by the trade-off decisions that the Congress makes to balance the importance of achieving each program's goals and objectives against the goal of encouraging greater state spending and lowering the federal deficit.

We were unable to precisely measure the budgetary impact of inflation-adjusted maintenance-of-effort requirements because current state spending levels are not reported consistently. However, it was possible to estimate the impact of changes in the matching rates on many close-ended federal grants. For example, many such grants do not require any state or local matching funds. The federal share of these programs could be reduced modestly, for example from 100 percent to 90 percent, a reduction unlikely to discourage states from participating in the program. CBO estimates that the introduction of a 10 percent matching requirement on some of the largest federal discretionary grant programs that are currently 100 percent federally funded, and a corresponding 10 percent reduction from the appropriated grant levels, would result in the savings shown below. If such a change in match rates were combined with inflation-adjusted maintenance-of-effort requirements, states that choose to participate in the program would have to maintain the same or increase levels of program spending in order to receive federal funding.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Discretionary spending					
Savings from the 2002 baseline					
Budget authority	2,480	2,973	3,068	3,161	3,261
Outlays	868	2,113	2,720	2,975	3,142

Source: Congressional Budget Office.

Related GAO Products

Welfare Reform: Early Fiscal Effects of the TANF Block Grant (GAO/AIMD-98-137, Aug. 22, 1998).

Federal Grants: Design Improvements Could Help Federal Resources Go Further (GAO/AIMD-97-7, Dec. 18, 1996).

Block Grants: Issues in Designing Accountability Provisions (GAO/AIMD-95-226, Sept. 1, 1995).

GAO Contact

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Replace the 1-Dollar Note with a 1-Dollar Coin

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Financial Services (House)
Appropriations subcommittees	Treasury and General Government (Senate) Treasury, Postal Service, and General Government (House)
Primary agency	Department of the Treasury
Account	United States Mint Public Enterprise Fund (20-4159)
Spending type	Direct/Governmental Receipts
Budget subfunction	803/Central fiscal operations
Framework theme	Improve efficiency

Replacing the 1-dollar note with a new 1-dollar coin would save the government hundreds of millions of dollars annually. Substituting a dollar coin for a dollar note could yield over $450 million of savings to the government per year, on average, over a 30-year period. The savings come about because a coin lasts longer than paper money; the Federal Reserve has lower processing costs with coins than paper money; and a coin would result in interest savings from the additional seigniorage earned on a coin (i.e., the difference between the face value of a coin and its production cost).

In the past, the executive branch has not supported the replacement of the $1 note with a coin because of the belief that the Congress would respond to public pressure and allow both the coin and note to be used. All Western economies now use a coin for monetary transactions at the same value that Americans use the more costly paper note. These countries have demonstrated that public resistance to such a change can be managed and overcome. The United States has released a new gold-colored dollar coin this year. While initial demand for the coin has been strong, for it to realize its savings potential, the note has to be eliminated. About 1 billion coins have been issued, but for the most part they are being held by collectors and do not circulate. With proper congressional oversight, public resistance to elimination of the $1 note could be overcome and public support for the coin improved. For example the Congress could require the Treasury or the Federal Reserve to conduct a public awareness campaign,

explaining the savings that could be achieved by eliminating the $1 note. In addition, the Congress could require the Federal Reserve or the Treasury Department to designate a central spokesperson who would handle all public and press inquiries about the elimination of the $1 note.

Even though this option would result in significant long-term savings, it does not yield savings over the first 5 years, as scored by CBO. First, seigniorage, which would lower interest costs to the government by either replacing the need to borrow from the public or allowing the government to pay down its accumulated debt more quickly, is not included in the savings estimate because it is not considered part of the budget. Second, while the initial 5-year window captures much of the additional cost for the U.S. Mint to produce and stockpile a sufficient number of 1-dollar coins for circulation, it includes only a fraction of the savings to the Federal Reserve System from lower production and processing costs.

Related GAO Products

A Dollar Coin Could Save Millions (GAO/T-GGD-95-203, July 13, 1995).

1-Dollar Coin Reintroduction Could Save Millions if It Replaced the 1-Dollar Note (GAO/T-GGD-95-146, May 3, 1995).

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

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Eliminate Pay Increases after Separation in Calculating Lump-Sum Annual Leave Payments

Authorizing committees	Governmental Affairs (Senate) Government Reform (House)
Appropriations subcommittees	Multiple
Primary agency	Office of Personnel Management
Account	Multiple
Spending type	Discretionary
Budget subfunction	Multiple
Framework theme	Improve efficiency

Employee pay and benefits is one of many areas of the federal budget receiving congressional attention because of scarce federal resources. One such benefit is an employee's entitlement under 5 U.S.C. 5551(a) to receive a lump-sum payment for any accumulated, unused annual leave upon separation from federal service. In calendar year 1996, the cost of lump-sum leave payments to separating civilian employees was about $562 million governmentwide. We were requested to identify any personnel cost savings that could be achieved from limiting the lump-sum leave payment to the employee's pay rate at the time of separation, instead of the current method of assuming the employee had remained in service until the entire leave balance had expired.

Based in part on our information and analysis, CBO estimated that agencies could realize personnel cost savings of $20 million over 5 years if lump-sum annual leave payments were limited to the rate of pay at the time of separation. If the Congress enacted such a limitation, no General Schedule (GS) pay increases that go into effect following an employee's separation would be added to the payment calculation. To illustrate how small the maximum reduction in payments would be to individual separating employees, we calculated what the maximum reduction in lump-sum leave payments would have been to separating employees in January 1996 at various GS pay levels if the net 2.54 percent pay increase had been eliminated from their lump-sum leave payments. For example, we reported that the maximum reduction for an average GS-15 pay level would be from $86 to $481, depending on the amount of accrued annual leave.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 funding level					
Budget authority	4	4	5	5	5
Outlays	4	4	5	5	5

Source: Congressional Budget Office.

Related GAO Product

Federal Civilian Personnel: Cost of Lump-Sum Annual Leave Payments to Employees Separating From Government (GAO/GGD-97-100, May 29, 1997).

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Increase Fee Revenue from Federal Reserve Operations

Authorizing committees	Banking, Housing and Urban Affairs (Senate) Financial Services (House)
Primary agency	Federal Reserve Board
Spending type	Direct
Framework theme	Improve efficiency

The Federal Reserve is responsible for conducting monetary policy, maintaining the stability of financial markets, providing services to financial institutions and government agencies, and supervising and regulating banks and bank-holding companies. The Federal Reserve is unique among governmental entities in its mission, structure, and finances. Unlike federal agencies funded through congressional appropriations, the Federal Reserve is a self-financing entity that deducts its expenses from its revenue and transfers the remaining amount to the U.S. Department of the Treasury. Although the Federal Reserve's primary mission is to support a stable economy, rather than to maximize the amount transferred to Treasury, its revenues contribute to total U.S. revenues and, thus, can help reduce the federal deficit.

One way to enhance the Federal Reserve's revenue would be to charge fees for bank examinations, thus increasing the Federal Reserve's return to taxpayers. The Federal Reserve Act authorizes the Federal Reserve to charge fees for bank examinations, but the Federal Reserve has not done so, either for the state-member banks it examines or the bank-holding company examinations it conducts. Taxpayers in effect bear the cost of these examinations, which total hundreds of millions of dollars annually. If fees were assessed similar to those charged national banks with a credit allowed for fees paid to state regulators, the following savings could be achieved.

Five-Year Savings

Dollars in millions	FY03	FY04	FY05	FY06	FY07
Savings from the 2002 funding level					
Added receipts	86	90	95	99	104

Note: Estimates are presented net of the tax effect.

Source: Congressional Budget Office.

Related GAO Products

Federal Reserve System: Current and Future Challenges Require Systemwide Attention (GAO/T-GGD-96-159, July 26, 1996).

Federal Reserve System: Current and Future Challenges Require Systemwide Attention (GAO/GGD-96-128, June 17, 1996).

Federal Reserve Banks: Internal Control, Accounting, and Auditing Issues (GAO/AIMD-96-5, Feb. 9, 1996).

GAO Contact

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Recognize the Costs Up-front of Long-Term Space Acquisitions

Authorizing committees	Environment and Public Works (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Treasury and General Government (Senate) Treasury, Postal Service, and General Government (House)
Primary agency	General Services Administration
Account	Federal Buildings Fund (47-4542)
Spending type	Discretionary
Budget subfunction	804/General property and records management
Framework theme	Improve efficiency

Building ownership through construction or lease-purchase—where ownership of the asset is transferred to the government at the end of the lease period—is generally less costly than meeting agencies' long-term requirements through ordinary operating leases. However, we have reported over the last decade that GSA relies heavily on operating leases to meet the long-term space needs of the federal government. In March 1999, we reported that for nine major operating lease acquisitions GSA proposed between fiscal years 1994 and 1996, construction would have been the least cost option in eight cases. In these eight cases, lease-purchase was estimated to be more costly than construction, but less than the operating lease option GSA proposed. For example, the present value cost for the operating lease to meet the Patent and Trademark Office's long-term requirements in northern Virginia was estimated to be about $973 million. Construction was estimated to be $925 million—or $48 million less—and lease-purchase was estimated at $935 million—or $38 million less than the operating lease option. In total for these eightcases, construction and lease-purchase had cost advantages over operating leases estimated at about $126 million and $107 million, respectively.

Historically, the Federal Buildings Fund (FBF) has not generated sufficient revenue for constructing new office buildings. Operating leases have become an attractive option because the total costs do not have to be scored up-front for budget purposes and payments are spread out over time. However, as shown above, they are a costly alternative to ownership over the long-run. A lease-purchase would seem to be a desirable

alternative from GSA's point of view. However, the budget scorekeeping rules established by the Budget Enforcement Act of 1990 (BEA) effectively prevent GSA from taking advantage of this option. Furthermore, we reported in August 2001 that the scorekeeping rules might result in shorter terms for some leases, which could result in higher costs than for longer-term leases. The scorekeeping rules require the total budget authority for lease-purchases and capital leases to be recognized and recorded up-front in the year they are approved. Although GSA has viewed the up-front funding requirement as an impediment to meeting agency space needs in a cost-effective manner, it is generally recognized as an important tool for maintaining governmentwide fiscal control. That is, the rules prevent agencies and Congress from committing the government to future payments that may exceed future resources and spending priorities.

Since lease-purchases are not a viable option for improving the cost-effectiveness of space acquisition, an option that could result in long-term savings for the government would be to recognize that many operating leases are used for long-term needs and should be treated on the same basis as the ownership options. This would make such instruments comparable in the budget to direct federal ownership and would foster more cost-effective decisionmaking by OMB and Congress. Applying the principle of up-front full recognition of the long-term costs to all options for satisfying long-term space needs—construction, purchases, lease-purchases, or operating leases—is more likely to result in selecting the most cost-effective alternative than the current scoring rules.

It is important to note that there would be implementation challenges if this option is pursued. If operating leases were scored up-front, adjustments to the BEA caps would be necessary to accommodate the scoring change. For existing leases, the additional budget authority would need to be provided and the caps would have to be adjusted upward initially to recognize the higher up-front costs. The caps would be lowered in succeeding years to recognize the lower annualized costs.[14] Such a change may also need to be phased in because of resource constraints. Finally, it would be difficult to reach agreement on what constitutes long-term space needs that would warrant this up-front budgetary treatment. GSA officials suggested in July 1997 that if changes to the scoring rules are made, all operating leases should be scored up-front. The GSA officials said that its

[14]Existing contracts could also be "grandfathered" in as occurred under the lease-purchase rule.

leases no longer contain a clause permitting the government to terminate them for convenience and thus, its leases effectively commit the government for the term of the lease when they are signed. Even though this option should result in long-term savings, it does not yield savings over the first 5 years, as scored by CBO.

Related GAO Products

Budget Scoring: Budget Scoring Affects Some Lease Terms, but Full Extent Is Uncertain (GAO-01-929, Aug. 31, 2001).

Federal Buildings: Funding Repairs and Alterations Has Been a Challenge—Expanded Financing Tools Needed (GAO-01-452, Apr. 12, 2001).

General Services Administration: Comparison of Space Acquisition Alternatives—Leasing to Lease-Purchase and Leasing to Construction (GAO/GGD-99-49R, Mar. 12, 1999).

Space Acquisition Cost: Comparison of GSA Estimates for Three Alternatives (GAO/GGD-97-148R, Aug. 6, 1997).

Budget Issues: Budgeting for Federal Capital (GAO/AIMD-97-5, Nov. 12, 1996).

Budget Issues: Budget Scorekeeping for Acquisition of Federal Buildings (GAO/T-AIMD-94-189, Sept. 20, 1994).

Federal Office Space: Increased Ownership Would Result in Significant Savings (GAO/GGD-90-11, Dec. 22, 1989).

GAO Contact

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Seek Alternative Ways to Address Federal Building Repair Needs

Authorizing committees	Environment and Public Works (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Treasury and General Government (Senate) Treasury, Postal Service, and General Government (House)
Primary agency	General Services Administration
Accounts	Federal Building Fund (47-4542)
Spending type	Discretionary
Budget subfunction	804/General Property and Record Management
Framework theme	Improve efficiency

The General Services Administration (GSA) is the federal government's real property manager, providing office space for most federal agencies. In this capacity, GSA is responsible for keeping the approximately 1,700 federal buildings it manages in good repair to ensure that the value of these assets is preserved and that tenants occupy safe and modern space. Many buildings in GSA's portfolio are more than 50 years old, monumental in design, and historically significant. Consequently, unlike a private sector company, GSA cannot always dispose of a building simply because it would be economically advantageous to do so. GSA identifies needed repairs through detailed building inspections and sorts them into three tiers based on costs. Repairs in the highest cost tier must be approved by the Office of Management and Budget (OMB) and then authorized for funding by the Congress. GSA receives annual authority for funding for repairs in the other two tiers.

As of the end of fiscal year 1999, GSA data showed an unfunded inventory of approximately $4 billion in repairs and alterations that needed to be completed at its buildings. A major reason for this large and growing backlog is the lack of available funding. For example, from 1995 through 2001, the Congress approved only 63 percent of the approximately $6.8 billion GSA requested for repair and alteration projects.

Unless the Congress increases the funding available to GSA to address its backlog of repair and alteration needs, it is likely that this backlog will continue to grow given the age of the current federal inventory of buildings.

Delaying or not performing needed repairs and alterations can have serious consequences, including health and safety concerns, and lead to higher operating costs associated with inefficient heating and cooling systems. Given the current and likely increasing demands on discretionary appropriations, the Congress may wish to grant GSA the authority to experiment with funding alternatives, such as exploring public-private partnerships, and retaining funds from real property transactions, like the sale of unneeded assets. While CBO agrees that alternative funding sources could potentially offset repair expenses, it could not develop an estimate until a specific proposal is developed.

Related GAO Products

General Services Administration: Status of Achieving Key Outcomes and Addressing Major Management Challenges (GAO-01-931, Aug. 3, 2001).

Public-Private Partnerships: Pilot Program Needed to Demonstrate the Actual Benefits of Using Partnerships (GAO-01-906, July 25, 2001).

Federal Buildings: Funding Repairs and Alterations Has Been a Challenge—Expanded Financing Tools Needed (GAO-01-452, Apr. 12, 2001).

Federal Buildings: Billions are Needed for Repairs and Alterations (GAO/GGD-00-98, Mar. 30, 2000).

GAO Contact

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Improper Benefit Payments Could Be Avoided or More Quickly Detected if Data from Various Programs Were Shared

Authorizing committees	Multiple
Appropriation committees	Multiple
Primary agency	Multiple
Accounts	Multiple
Spending type	Direct/Discretionary
Budget subfunction	Multiple
Framework theme	Improve efficiency

Many federally funded benefit and loan programs rely on applicants and current recipients to accurately report information, such as the amount of income they earn, that affects their eligibility for assistance. To the extent that such information is underreported or not reported at all, the federal government overpays benefits or provides loans to individuals who are ineligible. In recent years, others and we have demonstrated that federally funded benefit and loan programs, such as housing and higher education assistance, have made hundreds of millions of dollars in improper payments. Some of these payments were made improperly because the federal, state, and local entities that administer the programs sometimes lacked adequate, timely data needed to determine applicants' and current recipients' eligibility for assistance. Our previous work has demonstrated that improper payments can be avoided or detected more quickly by using data from other programs, or data maintained for other purposes, to verify self-reported information.

Federally funded benefit and loan programs provide cash or in-kind assistance to individuals who meet specified eligibility criteria. Because these programs require similar information to make eligibility determinations, it is more efficient to share the necessary data with one another rather than requiring each program to independently verify similar data. These programs may verify self-reported information by comparing their records with independent, third-party data sources from other federal or state agencies as well as private organizations. For example, benefit and loan programs can compare large amounts of information on applicants and recipients by using computers to match automated records. Electronic transmission of data and on-line access to agencies' databases are additional tools program administrators can use to share important information on applicants and recipients in a timely, efficient manner. If

used consistently, they can help program administrators check the accuracy of individuals' self-reported statements as well as identify information relevant to eligibility that the applicants and recipients themselves have not provided.

Various opportunities exist for federal, state, and local agencies to save taxpayer dollars by sharing information that affects individuals' eligibility for benefits. For example, the Department of Education's OIG estimates that underreported income contributed to about $109 million in excess Pell Grant awards in 1995 and 1996. Access to IRS taxpayer information could have helped Education prevent some of these overpayments. Improper payments could also be avoided or detected more quickly in other programs. For example, four states and the District of Columbia estimate that they prevented about $16 million in improper TANF, Medicaid and Food Stamp benefit payments by participating in the Public Assistance Reporting Information System (PARIS). PARIS could also help other states save program funds by identifying and preventing future improper payments.

The three federally funded benefit and loan programs we examined—Temporary Assistance for Needy Families, Tenant-Based Section 8 and Public Housing, and student grants and loans—all use data sharing to varying degrees to verify information that applicants and current benefit recipients provide. However, the weaknesses in these programs' eligibility determination processes could be mitigated if additional data sources were available for sharing. For example, the Congress could grant the Department of Education access to IRS taxpayer data which could reduce overpayments in student loan programs. CBO could not estimate savings until a more specific option is developed.

Related GAO Products

Public Assistance: PARIS Project Can Help States Reduce Improper Benefit Payments (GAO-01-935, Sept. 6, 2001).

The Challenge of Data Sharing: Results of a GAO-Sponsored Symposium on Benefit and Loan Programs (GAO-01-67, Oct. 20, 2000).

Benefit and Loan Programs: Improved Data Sharing Could Enhance Program Integrity (GAO/HEHS-00-119, Sept. 13, 2000).

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Better Target Infrastructure Investments to Meet Mission and Results-Oriented Goals

Authorizing committees	Multiple
Appropriations subcommittees	Multiple
Primary agency	Multiple
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Multiple
Framework theme	Improve efficiency

The federal government plays a prominent role in identifying the nation's infrastructure investment needs and has spent an average of $149 billion (in constant 1998 dollars) annually since the late 1980s on the nation's infrastructure. A sound public infrastructure plays a vital role in encouraging a more productive and competitive national economy and meeting public demands for safety, health, and improved quality of life. Little, however, is known about the comparability and reasonableness of federal agencies' estimates for infrastructure needs. In fact, infrastructure "need" is difficult to define and to distinguish from "wish lists" of capital projects.

In a recent review of seven federal agencies' investment practices, GAO found that none of them followed leading practices for capital decisionmaking. In particular, five of the agencies did not develop assessments of the investments needed to meet outcomes. Rather, these agencies developed estimates that were summations of the costs of projects eligible to receive federal funding or projects identified by the Congress and others. Also, agencies were not likely to (1) develop a long-term capital plan, (2) use cost-benefit analysis as the primary method to compare alternative investments, (3) rank and select projects for funding based on established criteria, and (4) budget for projects in useful segments.

Given the importance of federal infrastructure investment to the nation, the Congress may wish to have the Office of Management and Budget to develop standards for agencies to follow when submitting funding requests. At a minimum, requiring agencies to link the benefits of investment projects to the achievement of mission goals would give decisionmakers better information to base funding decisions on.

Infrastructure investment requests based on other leading practices, especially those enumerated above, could also increase the Congress' capacity to make better investment decisions. CBO cannot develop a savings estimate until a specific proposal is developed.

Related GAO Products

U.S. Infrastructure: Agencies' Approaches to Developing Investment Estimates Vary (GAO-01-835, July 20, 2001).

Executive Guide: Leading Practices in Capital Decision-Making (GAO/AIMD-99-32, Dec. 1998).

GAO Contact

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Information Sharing Could Improve Accuracy of Workers' Compensation Offset Payments

Authorizing committees	Finance (Senate) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Social Security Administration
Accounts	Supplemental Security Income Program (28-0406) Federal Disability Insurance Trust Fund (20-8007)
Spending type	Direct
Budget subfunction	Multiple
Framework theme	Improve efficiency

Between 1991 and 1998, workers received an average of about $43 billion each year in cash and medical benefits through the nation's workers' compensation (WC) programs to cover work-related injuries. Workers' compensation consists of a complex array of programs that provide benefits to persons injured while working or who suffer occupational diseases. Each state and the District of Columbia requires employers operating in its jurisdictions to provide WC insurance for their employees and to report work-related injuries to the state WC agency. WC beneficiaries may also be eligible for federal program benefits, such as Social Security Disability Insurance (DI) and Supplemental Security Income (SSI). In such programs, the law often limits access or reduces benefits for those receiving workers' compensation. Generally, if a person receives both DI and WC benefits, and together these benefits exceed 80 percent of the injured worker's average current earnings, the Social Security Administration (SSA) generally reduces the DI benefit. This reduction in benefits is referred to as the WC offset. A number of other federal programs also rely on information on WC benefit payments as a determinant of federal benefit payments. For example, Medicare covers medical expenses for persons who have received DI benefits for 2 years, but WC insurers are supposed to be the primary payer and Medicare the secondary payer of medical expenses that arise from work-related injuries and are covered under the WC program. Similarly, other federal programs, including food stamps and Section 8 rental housing assistance consider WC benefits as income or assets when determining program eligibility and benefit payment amounts.

Because there is no national reporting system that identifies WC beneficiaries, federal agencies largely rely on applicants and beneficiaries to report their WC benefits. This fragmented reporting system has resulted in federal agencies making erroneous payments. For example, evaluations by GAO, SSA, and SSA's Office of Inspector General (OIG) have found significant overpayment and underpayment errors related to the WC offset provision. Ongoing SSA reviews of benefit payments indicate that more than 50 percent of DI beneficiaries whose benefits are being offset have been paid inaccurately. Another study projected $1.5 billion in payment errors related to the WC offset. About 85 percent of these errors are underpayments of entitled benefits that result when DI beneficiaries do not report reductions in their WC benefits. SSA's administration of the WC offset provision continues to be undermined by the lack of reliable information identifying the receipt of WC benefits by DI beneficiaries. Other federal programs, such as Medicare, food stamps, and Section 8 rental housing also rely on self-reported WC information as a basis for determining benefit payments, and similarly are vulnerable to payment errors as a result. For example, Medicare relies on its applicants and beneficiaries to self-report WC benefits and is vulnerable to payment errors when they do not. HCFA officials have estimated that about 8 percent of its beneficiaries have medical claims that may be the responsibility of another health insurer, liability insurer or WC program. A GAO review of one state (not nationally representative) found that (1) Medicare's interests relative to the payment of future medical benefits were not considered in any of the WC cases resolved through settlements (83 percent of our sample), (2) HCFA was aware of WC benefits being received in only one-third of the cases where it paid benefits under Part A (a nonrandom sample), and (3) about 39 percent of joint WC and Medicare beneficiaries had received Medicare benefits for treatments that were potentially related to the WC injury. Finally, an inability to obtain WC benefit information could affect the accuracy of benefit payments for other federal programs such as food stamps and Section 8 housing and could result in the overpayment of benefits.

Given the fragmented nature of WC programs, the Congress could establish a reporting requirement that WC Insurers provide SSA with information on changes to WC benefit payments. SSA could use this information to make adjustments to DI and SSI payments accordingly, and this information could be shared with other federal agencies. Doing so would reduce the potential for errors in the disbursing of benefits. Because budgetary savings would depend on the key details of the requirements—such as

which insurers would be covered and how frequently they would be required to report—CBO cannot estimate them without more information.

Related GAO Product

Workers' Compensation: Action Needed to Reduce Payment Errors in SSA Disability and Other Programs (GAO-01-367, May 4, 2001).

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Determine Feasibility of Locating Federal Facilities in Rural Areas

Authorizing committees	Multiple
Appropriations subcommittees	Multiple
Primary agency	General Services Administration
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Multiple
Framework theme	Improve efficiency

The Rural Development Act of 1972 (RDA) and the Competition in Contracting Act of 1984 (CICA), as well as executive orders, provide guidance on site location decisions for federal facilities. While considering areas in which to locate, RDA requires all executive departments and agencies to establish policies and procedures giving first priority to the location of new offices and other facilities in rural areas.[15] The General Services Administration (GSA) is the central management agency for acquiring real estate for many federal agencies, while some other agencies, such as the Department of Defense, have their own authority to acquire space.

A recent survey of 115 new federal site locations acquired between 1998 and 2000 for buildings over 25,000 square feet found that about 72 percent were located in urban areas. Agencies said they selected urban areas primarily because of the need to be near agency clients and related government and private sector facilities to accomplish their missions. Eight of the 13 cabinet agencies surveyed had no formal RDA siting policy, and there was little evidence that agencies considered RDA's requirements when siting new federal facilities. Furthermore, GSA has not developed a cost-conscious, governmentwide location policy. Federal site acquisition practices differ from private sector practices in that private sector companies are more likely to take advantage of local incentives and of lower real estate and labor costs.

[15]Government agencies have different definitions of what constitutes a rural area. See GAO-01-805, p. 25 for more detail.

Obviously, many factors are considered in site location decisions, and chief among them should be the agency's ability to accomplish its mission in the best way possible and to retain an adequate number of skilled employees. But, where there are opportunities to reduce costs and/or improve service by locating to rural areas, federal agencies may benefit from more closely following private sector practices. Consequently, the Congress may wish to follow through on the intent of RDA by requiring federal agencies to establish siting policies consistent with RDA's goals and also requiring GSA to establish a formal governmentwide siting policy that takes into account potential cost savings from locating in rural areas. Because specific options have not been proposed, CBO is unable to estimate cost savings.

Related GAO Product

Facilities Location: Agencies Should Pay More Attention to Costs and Rural Development Act Has Had Limited Impact (GAO-01-805, July 31, 2001).

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Receipts

Tax Interest Earned on Life Insurance Policies and Deferred Annuities
Further Limit the Deductibility of Home Equity Loan Interest
Limit the Tax Exemption for Employer-Paid Health Insurance
Repeal the Partial Exemption for Alcohol Fuels from Excise Taxes on Motor Fuels
Index Excise Tax Bases for Inflation
Increase Highway User Fees on Heavy Trucks
Require Corporate Tax Document Matching
Improve Administration of the Tax Deduction for Real Estate Taxes
Increase Collection of Returns Filed by U.S. Citizens Living Abroad
Increase the Use of Seizure Authority to Collect Delinquent Taxes
Increase Collection of Self-employment Taxes
Increase the Use of Electronic Funds Transfer for Installment Tax Payments
Reduce Gasoline Excise Tax Evasion
Improve Independent Contractor Tax Compliance
Expand the Use of IRS's TIN-Matching Program

Tax Interest Earned on Life Insurance Policies and Deferred Annuities

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Reassess objectives

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, such as 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. Coverage for low-income people is largely provided through the Social Security system, which provides both insurance and annuity protection.

The Congress may wish to consider taxing the interest earned on life insurance policies and deferred annuities. The table below reflects JCT's estimated savings from this option, effective taxable years beginning after December 31, 2001. Investment income from annuities purchased as part of a qualified individual retirement account would be tax-deferred until benefits were paid.

Five-Year Revenues

Dollars in billions

	FY03	FY04	FY05	FY06	FY07
Revenue gain	11.4	23.2	23.8	24.5	25.2

Note: JCT provided its revenue estimates in billions of dollars.

Source: Joint Committee on Taxation.

Related GAO Product

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

GAO Contact

James R. White, (202) 512-9110

Further Limit the Deductibility of Home Equity Loan Interest

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of the Treasury
Spending type	Direct
Framework theme	Reassess objectives

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 on up to $100,000 of home equity indebtedness and $1 million of indebtedness used to acquire a home. 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 nonhousing 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 up to $300,000 of indebtedness for the taxpayer's principal and second residence. Assuming an effective date of taxable years beginning after December 31, 2002, JCT estimates that this option would generate the following revenues.

Five-Year Revenues

Dollars in billions	FY03	FY04	FY05	FY06	FY07
Revenue gain	4.7	5.1	5.7	6.1	6.6

Note: JCT provided its revenue estimates in billions of dollars.

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, Mar. 25, 1993).

GAO Contact

James R. White, (202) 512-9110

Limit the Tax Exemption for Employer-Paid Health Insurance

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Redefine beneficiaries

The current tax treatment of health insurance—amounting to revenue losses of about $67.6 billion in 2001—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. The same is true for a portion of the premiums paid by self-employed individuals. Although some employers or employees could drop employer-sponsored coverage without the tax exemption, 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—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 individuals a refundable tax credit of 20 percent of premiums that they or their employers would pay, with eligible premiums capped at $500 and $200 per month for family coverage and individuals, respectively.

JCT did not develop a revenue estimate for this option due to uncertainty in determining the amount of health insurance that would be purchased given a repeal of the employer exclusion.

Related GAO Product

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

GAO Contact

James R. White, (202) 512-9110

Repeal the Partial Exemption for Alcohol Fuels from Excise Taxes on Motor Fuels

Authorizing committees	Finance (Senate) Ways and Means (Senate)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Redefine beneficiaries

The tax code partially exempts biomass-derived alcohol fuels—made from nonfossil material of biological origin—from excise taxes on motor fuels. The tax code also provides that income tax credits for alcohol fuel use may be claimed instead of the excise tax exemption. However, the credit is in almost all cases less valuable than the exemption and is rarely used.

Tax incentives that encourage alternatives to fossil fuels might have merit if energy security or environmental benefits were realized. However, if alcohol fuel use was not subsidized it is unlikely that U.S. energy security or air quality would be significantly affected. Even with tax subsidies, alcohol fuels are not competitive in price with fossil fuels in most markets. In 1995, alcohol fuels accounted for less than 1 percent of total U.S. energy consumption. The incentives have not created enough usage to affect the likelihood of an oil price shock. Nor could their use be expanded enough to counter such a shock given existing production technologies. Use of oxygenated fuels such as ethanol-gasoline mixtures in motor vehicles generally produces less carbon monoxide pollution than does straight gasoline. However, the Clean Air Act Amendments of 1990 reduced the need for an ethanol subsidy by mandating the minimum oxygen content of gasoline in areas with poor air quality. The global warming effects of using ethanol are likely to be no better than, and could be worse than, those of gasoline.

The Congress may wish to consider repealing the partial excise tax exemption and the alcohol fuels tax credit. The repeal could result in higher federal outlays for price support loan programs, but any increase in outlays probably would be much smaller than the estimated revenue increase. The excise tax exemption is currently scheduled to expire on October 1, 2008; the equivalent blender's tax credit is scheduled to expire on January 1, 2008. The table below reflects JCT's estimated savings from this option assuming an effective date of January 1, 2003.

Five-Year Revenues

Dollars in billions	FY03	FY04	FY05	FY06	FY07
Revenue gain	.6	.8	.8	.8	.9

Note: JCT provided its revenue estimates in billions of dollars.

Source: Joint Committee on Taxation.

Related GAO Product

Tax Policy: Effects of the Alcohol Fuels Tax Incentives (GAO/GGD-97-41, Mar. 6, 1997).

GAO Contact

James R. White, (202) 512-9110

Index Excise Tax Rates for Inflation

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Redefine beneficiaries

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. The Congress may wish to consider indexing excise tax rates for alcohol and tobacco. The table reflects JCT's estimated revenue gains from this option with an effective date of December 31, 2002.

Five-Year Revenues

Dollars in billions	FY03	FY04	FY05	FY06	FY07
Revenue gain	.2	.5	.9	1.2	1.5

Note: JCT provided its revenue estimates in billions of dollars.

Source: Joint Committee on Taxation.

Related GAO Products

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

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

GAO Contact

James R. White, (202) 512-9110

Increase Highway User Fees on Heavy Trucks

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Primary agency	Department of Transportation
Spending type	Direct
Framework theme	Redefine beneficiaries

To develop and maintain highways, the government collects user fees including fuel taxes, a heavy vehicle use tax, an excise tax on truck and tractor sales, and an excise tax on heavy tires. In fiscal year 1999, about $35.1 billion was collected from general highway user taxes. For many years, questions have been raised concerning whether highway users, including owners of heavy trucks, pay taxes in proportion to the wear and tear that their vehicles impose on highway pavement.

In 1982, the Congress passed the first major increase in federal highway use taxes since 1956 in order to increase highway revenues and to respond to a Federal Highway Administration (FHWA) report that heavy trucks underpaid by about 50 percent their fair share relative to the pavement damage that they caused. FHWA also reported that lighter trucks were overpaying by between 30 and 70 percent (depending on weight), and automobiles were overpaying by 10 percent. The 1982 tax increase required that that the ceiling for the heavy vehicle use tax be increased from $240 a year to $1,900 a year by 1989. In response to the concerns of the trucking industry about the new tax structure, the Congress again revised the system in the Deficit Reduction Act of 1984. Under the act, the ceiling for the heavy vehicle use tax was lowered from $1,900 to $550 a year. To ensure that this action was revenue neutral, the Congress raised the tax on diesel fuel from 9 cents to 15 cents per gallon.

As GAO recommended in June 1994, FHWA conducted a cost allocation study. The study, released in August 1997, noted that the overall equity of highway user fees could be incrementally improved by implementing either a weight-distance tax or eliminating the existing $550 cap on the Heavy Vehicle Use Tax. However, the study made no recommendations; the administration continues to monitor highway user fees but plans no action unless the overall equity of highway user fees worsens. The Joint

Committee on Taxation (JCT) estimates that removing the $550 cap on the Heavy Vehicle Use Tax, effective December 31, 2001, would result in the revenue gains shown in the table below.

Five-Year Revenues

Dollars in billions

	FY03	FY04	FY05	FY06	FY07
Revenue gain	.1	.1	.1	.1	.1

Note: JCT provided its revenue estimates in billions of dollars.

Source: Joint Committee on Taxation.

Related GAO Product

Highway User Fees: Updated Data Needed To Determine Whether All Users Pay Their Fair Share (GAO/RCED-94-181, June 7, 1994).

GAO Contact

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Require Corporate Tax Document Matching

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

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, we 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, we estimated that for years 1995 through 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 increased corporate noncompliance, and declining audit coverage, the Congress may wish to require a corporate document matching program.

JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

Related GAO Product

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

GAO Contact

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Improve Administration of the Tax Deduction for Real Estate Taxes

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

IRS audits show that individuals overstated their real estate tax deductions by about $1.5 billion nationwide in 1988. We estimate 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 our review also found that IRS auditors detected only about 29 percent of $127 million in overstated deductions in three locations we 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 IRS that would separate real estate taxes from nondeductible fees, which are often combined on these statements.

For estimation purposes, the proposals would be effective for rebates issued after December 31, 2001, and for amounts reported on tax bills after December 31, 2002. JCT estimates that the proposals together, would increase federal fiscal revenues as shown in the table below.

Five-Year Revenues

Dollars in billions	FY03	FY04	FY05	FY06	FY07
Revenue gain	0	*	.1	.2	.2

Note: JCT provided its revenue estimates in billions of dollars.

* - less than $50 million

Source: Joint Committee on Taxation.

Related GAO Product

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

GAO Contact

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Increase Collection of Returns Filed by U.S. Citizens Living Abroad

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

U.S. citizens residing abroad are generally subject to the same filing requirements as citizens residing in the United States. The State Department estimated the total population of U.S. citizens living abroad at about 3.1 million in 1995, excluding active military and current government personnel. Some evidence suggests that the failure to file tax returns may be relatively prevalent in some segments of the U.S. population abroad, and the revenue impact, while unknown, could be significant.

IRS's ability to identify and collect taxes from nonfilers residing abroad is restricted by the limited reach of U.S. laws in foreign countries, particularly U.S. laws on tax withholding, information reporting, and enforced collection through liens, levies, and seizures. Another factor that could contribute to nonfiling abroad is the ambiguity in IRS's filing instructions for its Form 1040 and related guidance. For example, it may not be clear that income qualifying for the foreign earned income or housing expense exclusions must be considered in determining whether one's gross income exceeds the filing threshold.

In pursuing nonfilers abroad, IRS has not fully explored the usefulness of passport application data as a means of identifying potential nonfilers. While passport applications contain no income information, they could be used to collect applicants' social security number, age, occupation, and country of residence.

IRS may want to take additional steps to enforce the current information requirement that all passport applicants provide their social security numbers as a means of identifying potential nonfilers abroad. IRS may also want to clarify its instructions for determining what income must be considered in determining whether gross income exceeds the filing threshold. Initial projects to increase the number of returns filed from

overseas suggest that the potential increase in tax revenues would justify the costs to improve compliance.

JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

Related GAO Products

Tax Administration: Nonfiling Among U.S. Citizens Abroad (GAO/GGD-98-106, May 11, 1998).

IRS Activities to Increase Compliance on Overseas Taxpayers (GAO/GGD-93-93, May 18, 1993).

GAO Contact

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Increase the Use of Seizure Authority to Collect Delinquent Taxes

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

IRS' use of its statutory authority to seize taxpayer assets has been instrumental in bringing into compliance (i.e., full pay status) many delinquent taxpayers who had been unresponsive to other tax collection efforts, including demands for payment through letters, phone calls, personal visits, and levies on bank accounts and wages. Of the approximate 8,300 taxpayers whose assets were seized by IRS in fiscal year 1997, about 42 percent became fully tax compliant--resolving about $186 million in tax debts--as a result of the seizures. In total, the seizure of taxpayer property in fiscal year 1997 resulted in resolving about $235 million or about 22 percent of the $1.1 billion of tax debts owed by the 8,300 taxpayers.

IRS' use of seizure authority has been in a period of transition as IRS adapts to the requirements of the IRS Restructuring and Reform Act of 1998. During this transition the number of seizures has declined over 98 percent. IRS employees told GAO that seizures have nearly stopped because of their uncertainty over the act's seizure requirements and IRS' slow development of workable policies and procedures for implementing the act.

IRS national office officials indicated to GAO that they expected the number of seizures to rebound as changes to the seizure program are implemented and employees adapt to the new requirements. The officials also indicated that the expected rebound would be to levels significantly below preact experience given (1) IRS program changes that provide taxpayers with additional opportunities to resolve their tax delinquencies prior to seizure, (2) expanded definition of taxpayer property statutorily exempt from seizure, (3) increased time available to taxpayers to exercise rights to challenge seizures, and (4) reductions in collection staff available to make seizures.

Until the anticipated rebound begins, however, IRS is at risk of forgoing the collection of millions of dollars as indicated by the 1997 data. To facilitate the rebound and to help ensure that seizure authority is used when warranted, GAO has made a number of recommendations to IRS. In part, GAO recommended that IRS provide written guidance to employees on when seizure action ought to be taken, that is, the conditions and circumstances that would justify seizure action and the responsibilities of senior managers to ensure that such actions are taken. Effective implementation of the recommendations, particularly those involving the responsibilities of IRS managers, is contingent on the success of the ongoing time-phased organizational restructuring of IRS as mandated by the 1998 act.

JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

Related GAO Product

IRS Seizures: Needed for Compliance but Processes for Protecting Taxpayer Rights Have Some Weaknesses (GAO/GGD-00-4, Nov. 29, 1999).

GAO Contact

James R. White, (202) 512-9110

Increase Collection of Self-employment Taxes

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

Self-employed taxpayers can get Social Security benefits based on earnings for which they did not pay taxes because the Social Security Act requires the Social Security Administration to grant earnings credits, which are used to determine benefit eligibility and amounts, and pay benefits without regard to whether the Social Security taxes have been paid. As of September 1997, more than 1.9 million self-employed taxpayers were delinquent in paying $6.9 billion in self-employment taxes. Also, more than 144,000 taxpayers with delinquent self-employment taxes of $487 million were receiving about $105 million annually in monthly Social Security benefits.

While IRS's ability to collect self-employment taxes before taxpayers become delinquent is hampered because there is no withholding on self-employment income, most self-employed taxpayers are required to make estimated tax payments. However, as of September 1997, about 90 percent of the delinquent self-employed taxpayers required to make estimated tax payments did not.

In the past, there have been proposals to deny social security credits to taxpayers that fail to pay their self-employment taxes and to require withholding on certain self-employment income. No actions were taken on these proposals. One way to collect self-employment taxes before taxpayers become delinquent that does not require a law change would be to encourage more self-employed individuals to make their required estimated tax payments. IRS could do this by establishing a program to remind previously noncompliant taxpayers (i.e., those who were assessed an estimated tax penalty the previous year) to make such payments.

JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

Related GAO Product

Tax Administration: Billions in Self-Employment Taxes Are Owed (GAO/GGD-99-18, Feb. 19, 1999).

GAO Contact

James R. White, (202) 512-9110

Increase the Use of Electronic Funds Transfer for Installment Tax Payments

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

The Internal Revenue Code authorizes IRS to allow taxpayers to pay their taxes in installments, with interest, if this arrangement would facilitate collection of the liability. As of September 2000, IRS had about 2.2 million installment agreements outstanding, worth about $8.3 billion. At the end of fiscal year 2000, approximately 35 percent of these installment agreements were in default.

A number of states use electronic funds transfer (EFT) to make their installment agreement program more efficient and effective. One state, Minnesota, requires taxpayers to pay by EFT, with some exceptions. As of late 1997, approximately 90 percent of Minnesota's installment agreements were EFT agreements, and the default rate had dropped from about 50 percent to between 3 percent and 5 percent in the 2 years the EFT requirement has been in effect. In California, within 6 months of implementing its EFT procedures, its default rate for new installment agreements dropped from around 40 percent to 5 percent.

EFT payments also produce administrative savings through lower processing costs involved in recording and posting remittances, lower postage and handling costs associated with sending monthly payment reminders, and lower collection enforcement costs needed to pursue fewer taxpayers in default. IRS's initial comparison of the cost of EFT payments with the cost of having taxpayers send installment payments to lockboxes in commercial banks showed that EFT payment costs were about 37 percent less than the lockbox costs.

The reported benefits for IRS of using EFT for installment agreement payments include the potential to reduce the percentage of taxpayer defaults, decrease administrative costs, and achieve faster collections. At the end of fiscal year 2000, less than 1.5 percent of IRS' outstanding installment agreements were EFT agreements.

JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

Related GAO Products

Tax Administration: Increasing EFT Usage for Installment Agreements Could Benefit IRS (GAO/GGD-98-112, June 10, 1998).

Tax Administration: Administrative Improvements Possible in IRS' Installment Agreement Program (GAO/GGD-95-137, May 2, 1995).

GAO Contact

James R. White, (202) 512-9110

Reduce Gasoline Excise Tax Evasion

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

Although no current and reliable estimate of gasoline excise tax evasion exists, the most recent Federal Highway Administration estimate, from 1992, was that evasion amounted to between 3 and 7 percent of gasoline excise tax revenue. 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, we 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. JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

Related GAO Product

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

GAO Contact

James R. White, (202) 512-9110

Improve Independent Contractor Tax Compliance

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

Common law rules for classifying workers as employees or independent contractors are unclear and subject to conflicting interpretations. While recognizing this ambiguity, the Internal Revenue Service (IRS) enforces tax laws and rules through employment tax examinations. Through fiscal year 1995, 90 percent of these examinations had 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 the 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 but rejected extending current information reporting requirements for unincorporated independent contractors to incorporated ones. Thus, independent contractors organized as either sole proprietors or corporations could have been on equal footing, and IRS could have had a less intrusive means of ensuring their tax compliance.

In recent years, various proposals on clarifying the definition of independent contractors and improving related information reporting emerged. Congressional hearings dealt with some of these bills.

We believe that revenues from this option could possibly increase by billions of dollars. JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

Related GAO Products

Tax Administration: Estimates of the Tax Gap for Service Providers (GAO/GGD-95-59, Dec. 28, 1994).

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

GAO Contact

James R. White, (202) 512-9110

Expand the Use of IRS's TIN-Matching Program

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

The IRS and FMS have recently initiated a continuous tax levy program designed to identify and levy federal payments to taxpayers that owe federal taxes. The potential effectiveness of this program will be reduced because payment records submitted to FMS by federal agencies often have an inaccurate Taxpayer Identification Number (TIN) and/or name.

Since 1997, IRS has had a TIN-matching program that federal agencies can use to verify the accuracy of TIN and name combinations furnished by federal payees that are necessary for issuing information returns. This program was intended to reduce the number of notices of incorrect TIN and name combinations issued for backup withholding by allowing agencies the opportunity to identify TIN and name discrepancies and to contact payees for corrected information before issuing an information return. Monthly, federal agencies may submit a batch of name and TIN combinations to IRS for verification. IRS matches each record submitted and informs the agency whether the TIN and name submitted matches its records. However, IRS cannot explicitly tell an agency what the correct TIN, name, or both TIN and name should be if the records do not match. To do so would violate tax disclosure laws.

In an April 2000 report, we found that about 33 percent of vendor payment records submitted by federal agencies to FMS during one quarter in fiscal year 1999 had TINs and/or names that differed with the TINs and/or names in IRS' accounts receivable records. As a result, vendor payment records totaling almost $20 billion were unsuitable for matching against IRS's accounts receivable records and therefore would not be included in the joint FMS/IRS continuous tax levy program for the purpose of reducing federal tax delinquencies.

The Congress may wish to expand the use of IRS's TIN-matching program for purposes other than information reporting to enable federal agencies to

specifically verify the accuracy of vendor TINs and names. This would help to reduce the number of federal payment records that are unsuitable for matching against IRS's accounts receivable records and to increase the number of federal tax delinquencies that could be collected through the continuous tax levy program. We estimate that resolving inconsistencies between the names payees use to receive federal payments and the names payees use on their federal tax returns could generate as much as $74 million annually. The table below reflects JCT's estimated savings from this option for contracts entered into after December 31, 2001.

Five-Year Revenues

Dollars in billions	FY03	FY04	FY05	FY06	FY07
Revenue gain	*	*	*	*	*

Note: JCT provided its revenue estimates in billions of dollars.

* - less than $50 million

Source: Joint Committee on Taxation.

Related GAO Product

Tax Administration: IRS' Levy of Federal Payments Could Generate Millions of Dollars (GAO/GGD-00-65, April 7, 2000).

GAO Contact

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Options Not Updated for This Report

The following table provides information on options presented in earlier versions of this series that are not included in this product. Seventeen options from our last report are not included in this report because (1) the option was fully or substantially acted upon by the Congress or the cognizant agency, (2) the option was no longer appropriate due to environmental changes or the aging of our work, or (3) the Congress or the cognizant agency chose a different approach to address the issues discussed in the option. We will continue to monitor many of these options to assess whether underlying issues are ultimately resolved based on the actions taken. It is possible that some of the issues discussed below may appear in subsequent editions of this series.

Option (budget function)	Comments
Limit Funding for Procurement of Antiarmor Weapons (050)	In response to antiarmor inventories that are more than adequate to defeat current threats, the services have reduced spending on antiarmor programs to less than $1 billion—the suggested spending ceiling in our option last year.
Eliminate or Retask Dedicated Continental Air Defense Units (050)	The remaining four Air National Guard units are no longer dedicated to air defense. The Air Force has aligned these units with its Aerospace Expeditionary Forces and expects them to participate in rotational deployments to support contingency operations, as do all other Air National Guard Units.
Reduce the Risk Assumed by Export-Import Bank Programs (150)	We will reconsider this option in light of recent Eximbank efforts to reduce loans and loan guarantees in high-risk markets.
Monitor Department of Energy's Strategic Computing Initiative and Supercomputer Utilization (270)	This option was based on 1997 utilization rate data and more recent data are not readily available.
Exempt Department of Energy's Operating Contractors from Certain State Taxes (270)	Recent data are not readily available on the extent to which DOE contractors are reimbursed by the federal government for state tax payments.
Reduce Department of Energy's Contractors' Separation Benefits (270)	Recent data are not readily available on the extent to which DOE contractor separation benefits exceed separation benefits provided to federal employees.
Rescind Clean Coal Technology Funds (270)	DOE has acted to reduce unobligated balances for this program.
Increase Flexibility in ATSDR's Health Assessment Process to Better Meet EPA's Needs in Evaluating Superfund Sites (300)	The Congress included language in P.L. 106-74 that provides ATSDR with flexibility in its health assessment process. Similar language was provided in EPA's appropriation bill for fiscal year 2001.
Improve Oversight of Superfund Administrative Expenditures to Better Identify Opportunities for Cost Savings (300)	EPA has acted to periodically analyze Superfund expenditures for the purpose of identifying opportunities to reduce non-site-specific expenditures.
Strengthen Controls Over Crop Insurance Claims (350)	The Risk Management Agency and the participating crop insurance companies announced a joint initiative to strengthen oversight of improper payments.

(Continued From Previous Page)	
Adequacy of Affordability and Contract Approach of the Coast Guard Deepwater Project (400)	DOT received $320 million for the Deepwater Program in its fiscal year 2002 appropriations act. The act prohibited the obligation or expenditure of these funds until DOT and OMB (1) jointly certify that funding for the program for fiscal years 2003 through 2007 is fully funded in the Coast Guard's Capital Investment Plan and within OMB's budgetary projections and (2) jointly approve a contingency procurement strategy for the recapitalization of Coast Guard deepwater assets and capabilities.
Improve FAA Oversight and Enforcement to Ensure Proper Use of General Aviation Airport Land and Revenue (400)	The Wendell H. Ford Aviation Investment and Reform Act for the 21st Century requires that the Secretary of Transportation provide a list of airports believed not to comply with federal requirements for land and revenue use, along with plans for corrective action.
Design New Payment System so that Medicare Does Not Overpay for Home Health Care (570)	The Health Care Financing Administration (HCFA), now known as the Centers for Medicare and Medicaid Services implemented a new prospective payment system under which Medicare makes a single payment for each 60-day episode of home health care rather than paying home health agencies for their costs, subject to limits, for services provided to beneficiaries.
Limit Enrollment in Veterans Affairs Health Care System (700)	VA has acted to collect and provide the Congress with information it needs on VA's workload.
Consolidate Asset Forfeiture Programs at the Departments of Justice and Treasury (750)	Given recent efforts by Treasury and DOJ to better coordinate their asset forfeiture programs, including four joint pilot projects, we will reassess this option and continue to monitor their progress.
Repeal the Davis-Bacon Act (999)	The Department of Labor has acted to improve the accuracy of wage data used to calculate prevailing wage rates used as a floor in federal construction contracts. Thus, whether or not Davis-Bacon wage requirements inflate construction costs is no longer an issue of the accuracy of wage rates.
Impose Pollution Fees and Taxes (Receipts)	Administrative initiatives to "reinvent" environmental regulation represent alternatives to pollution fees or tax schemes in that they retain a focus on compliance with environmental regulations, rather than relying on pricing mechanisms, to determine the overall level of pollution that is generated.

GAO Contacts and Staff Acknowledgments

GAO Contacts

Hundreds of people throughout GAO were responsible for either preparing the options included in this product or producing the reports and testimonies that form the basis for the options. At the end of each option, a key contact name is provided to address questions pertaining to the specific option.

Staff Acknowledgments

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