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UNITED STATES GENERAL ACCOUNTING OFFICE  
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TESTIMONY OF  
CHARLES A. BOWSER  
COMPTROLLER GENERAL OF THE UNITED STATES  
BEFORE THE  
COMMITTEE ON THE BUDGET  
UNITED STATES SENATE  
ON  
IMPLEMENTATION  
OF THE  
BALANCED BUDGET AND EMERGENCY  
DEFICIT CONTROL ACT OF 1985

Mr Chairman and Members of the Committee:

I am pleased to appear before the Committee to discuss our experience this year in the first implementation of the Balanced Budget and Emergency Deficit Control Act of 1985.

I am accompanied this afternoon by Mr. Harry Havens, Assistant Comptroller General, Mr. James Hinchman, Deputy General Counsel of GAO, and Dr. Lawrence Thompson, Chief Economist of GAO.

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We issued our report on January 21, as required by the Act, since January 20 was a legal holiday. I would like to offer a copy of the report for the record. Copies have been provided to you, Mr. Chairman, and to the other members of the Committee.

We changed a number of accounts, 18 for defense programs and 38 for non-defense. However, these changes were not sufficient in the aggregate to alter the general percentage reductions of 4.9 percent for defense and 4.3 percent for non-defense programs, as contained in the report we received from OMB and CBO.

The principal change in defense programs was to add to the sequester base about \$6.3 billion of unobligated balances available for transfer. The effect of this addition is to increase the amount of the sequester by \$309 million, with associated outlays of \$45 million.

In non-defense programs, there were a variety of changes in both directions. Unlike defense programs, there is no way to represent the change in the sequester base or in the amount of the sequester by single figures because various sorts of budgetary resources were affected and they cannot be added. However, the change in the outlays associated with the sequester is quite small--a net increase of about \$3 million--and that is indicative of the size of the changes we made.

Attached to my statement is a listing of the accounts where we made changes, showing the amount of each change. Each of these changes is explained in Appendix A of our report, in a narrative accompanying the table which shows the change being made. We

would be happy to discuss any of them about which you or the other Members of the Committee may have question.

The first year implementation of the Act has been accomplished successfully to this point.

As with any first time effort of this sort, a few complications arose which it was necessary to resolve. The significant ones which came to our attention are listed in an attachment. We would be happy to discuss any of those which you would like to pursue.

We would like to point out, however, that this year's process is not yet complete. The President has not yet issued his order, and the operating departments and agencies have not yet fully implemented the required reductions. Thus, additional complications may arise before the process is complete. As we become aware of them, such as in our required review of compliance with the Act, for which our report is to be issued on April 1, we will be bringing them to your attention.

In conclusion, I would like to thank OMB and CBO for the cooperation we received.

That completes my prepared statement, Mr. Chairman. My colleagues and I will be pleased to respond to any questions which you or other Members of the Committee may have.

**Summary of GAO Changes**  
(in millions of dollars)

Part I - Defense Program Accounts	GAO Changes In			
	Sequester Base	Associated Outlays	Sequester	Associated Outlays
Aircraft Procurement, Navy	551.3	49.1	27.0	2.4
Weapons Procurement, Navy	15.0	1.6	0.7	0.1
Shipbuilding and Conversion Navy	1,999.3	124.6	98.0	6.1
Other Procurement, Navy	276.5	29.7	13.5	1.5
Aircraft Procurement, Army	117.9	17.7	5.8	0.9
Missile Procurement, Army	66.5	4.8	3.3	0.2
Other Procurement, Army	257.5	20.6	12.6	1.0
Procurement of Weapons and Tracked Combat Vehicles, Army	590.3	26.4	28.9	1.3
Procurement of Ammunition, Army	178.1	48.1	8.7	2.4
Procurement, Marine Corps	47.7	4.6	2.3	0.2
Aircraft Procurement, Air Force	1,110.4	76.2	54.4	3.7
Missile Procurement, Air Force	82.8	19.7	4.1	1.0
Other Procurement, Air Force	347.5	165.7	17.0	8.1
Procurement, Defense Agencies	36.0	9.2	1.8	0.5
RDT&E, Defense Agencies	82.0	37.9	4.0	1.9
RDT&E, Navy	188.0	96.3	9.2	4.7
RDT&E, Army	96.1	49.3	4.7	2.4
RDT&E, Air Force	264.0	128.0	12.9	6.3
<b>Total, Part I</b>	<b>6,306.9</b>	<b>909.5</b>	<b>309.0</b>	<b>44.6</b>

**Summary of GAO Changes (continued)**  
(in millions of dollars)

Part II - Non-Defense Program Accounts	GAO Changes In			
	Sequester Base	Associated Outlays	Sequester	Associated Outlays
<b><u>Funds Appropriated to the President</u></b>				
<b><u>Agency for International Development</u></b>				
Housing and Other Credit Guaranty Programs				
Unobligated Balances - Admin.	-6.0	-4.5	-0.3	-0.2
<b><u>Overseas Private Investment Corporation</u></b>				
Overseas Private Investment Corp.				
Unobligated Balances - Admin.	-12.4	-11.8	-0.5	-0.5
<b><u>Department of Agriculture</u></b>				
<b><u>Farmers Home Administration</u></b>				
Agricultural Credit Insurance Fund				
Obligation Limitation	75.8	75.8	3.3	3.3
Rural Housing Insurance Fund				
Obligation Limitation	56.0	56.0	2.4	2.4
<b><u>Department of Commerce</u></b>				
<b><u>General Administration</u></b>				
Salaries and Expenses				
Unobligated Balances - Admin.	-4.6	-4.6	-0.2	-0.2

**Summary of GAO Changes (continued)**  
(in millions of dollars)

Part II - Non-Defense Program Accounts	GAO Changes In			
	Sequester Base	Associated Outlays	Sequester	Associated Outlays
<b><u>Department of Commerce</u></b>				
<b><u>National Oceanic and Atmospheric Administration</u></b>				
Federal Ship Financing Fund, Fishing Vessels				
Unobligated Balances - Admin.	-1.3	-1.3	-0.1	-0.1
Fishing Vessel and Gear Damage Compensation Fund				
Unobligated Balances - Admin.	-0.2	-0.2	*	*
Fishermen's Contingency Fund				
Unobligated Balances - Admin.	-0.1	-0.1	*	*
<b><u>National Bureau of Standards</u></b>				
Working Capital Fund				
Budget Authority	2.1	1.6	0.1	0.5
<b><u>Department of Defense - Civil</u></b>				
<b><u>Corps of Engineers - Civil General Expenses</u></b>				
Unobligated Balances - Admin.	-3.4	-3.4	-0.1	-0.1

**Summary of GAO Changes (continued)**  
(in millions of dollars)

Part II - Non-Defense Program Accounts	GAO Changes In			
	Sequester Base	Associated Outlays	Sequester	Associated Outlays
<b><u>Department of Education</u></b>				
<b><u>Office of Postsecondary Education</u></b>				
<b>College Housing Loans</b>				
Unobligated Balances - Admin.	-4.1	-1.2	-0.2	-0.1
<b><u>Department of Energy</u></b>				
<b><u>Energy Production</u></b>				
<b>Alternative Fuels Production</b>				
Unobligated Balances - Admin.	-0.2	-0.2	*	*
<b><u>Power Marketing Administration</u></b>				
<b>Operation and Maintenance, South- eastern Power Administration</b>				
Unobligated Balances - Admin.	-1.0	-0.9	*	*
<b><u>Department of Health and Human Services</u></b>				
<b><u>Alcohol, Drug Abuse, and Mental Health Admin- istration</u></b>				
<b>Federal Subsidy for St. Elizabeth's Hospital</b>				
401(C) Authority - Off. Collections	-25.0	-25.0	-1.1	-1.1

## Summary of GAO Changes (continued)

(in millions of dollars)

Part II - Non-Defense Program Accounts	GAO Changes In			
	Sequester Base	Associated Outlays	Sequester	Associated Outlays
<b><u>Department of Health and Human Services</u></b>				
<b><u>Social Security Administration</u></b>				
Child Support Enforce- ment				
Unobligated Balances - Admin.	-1.2	-1.2	-0.1	-0.1
Federal Old Age and Survivors Insurance Trust Fund				
Unobligated Balances - Admin.	-121.3	-40.0	-5.2	-1.7
<b><u>Department of Housing and Urban Development</u></b>				
<b><u>Government National Mortgage Association Management and Liquidating Functions Fund</u></b>				
Unobligated Balances - Admin.	-1.0	-1.0	*	*
Rehabilitation Loan Fund				
Unobligated Balances - Admin.	-19.7	-19.7	-0.8	-0.8
<b><u>Department of Justice</u></b>				
<b><u>Office of Justice Programs Justice Assistance</u></b>				
Unobligated Balances - Admin.	-3.4	-0.4	-0.1	-0.1



## Summary of GAO Changes (continued)

(in millions of dollars)

Part II - Non-Defense Program Accounts	GAO Changes In			
	Sequester Base	Associated Outlays	Sequester	Associated Outlays
<b><u>Department of Treasury</u></b>				
<b><u>Financial Management Service</u></b>				
Energy Security Reserve				
Unobligated Balances - Admin.	-3.0	-3.0	-0.1	-0.1
<b><u>United States Customs Service</u></b>				
Miscellaneous Permanent Appropriations				
Budget Authority	105.0		4.5	
Obligation Limitation	-20.4		-0.9	
Outlays		84.6		3.3
<b><u>Internal Revenue Service</u></b>				
<b><u>Internal Revenue Collections for Puerto Rico</u></b>				
Budget Authority	245.0	245.0	10.5	10.5
<b><u>Comptroller of the Treasury</u></b>				
Assessment Funds				
401(C) Authority	23.9		1.0	
401(C) Authority	9.4		0.4	
Off.Coll. Outlays		32.7		1.4
<b><u>Environmental Protection Agency</u></b>				
Hazardous Substance Response Trust Fund				
Unobligated Balances - Admin.	-39.5	-33.9	-1.7	-1.5

## Summary of GAO Changes (continued)

(in millions of dollars)

Part II - Non-Defense Program Accounts	GAO Changes In			
	Sequester Base	Associated Outlays	Sequester	Associated Outlays
<b><u>Small Business Administra- tion</u></b>				
Salaries and Expenses				
Unobligated Balances - Admin.	-90.0	-90.0	-3.9	-3.9
White House Conference on Small Business				
Unobligated Balances - Admin.	-1.0	-1.0	*	*
<b><u>District of Columbia</u></b>				
Federal Payment to the District of Columbia				
Budget Authority	-39.6	-39.6	-8.5	-8.5
Transitional Payment for St. Elizabeth's Hospital				
Budget Authority	25.0	25.0	1.1	1.0
Criminal Justice Initiative				
Budget Authority	13.9	13.9	0.6	0.6
Student Dropout Prevention Initiative				
Budget Authority	0.2	0.2	*	*
Job Training Initiative				
Budget Authority	0.5	0.5	*	*

## Summary of GAO Changes (continued)

(in millions of dollars)

Part II - Non-Defense Program Accounts	GAO Changes In			
	Sequester Base	Associated Outlays	Sequester	Associated Outlays
<b><u>District of Columbia</u></b>				
Court Study				
Budget Authority	0.1	0.1	*	*
<b><u>Federal Deposit Insurance Corporation</u></b>				
Federal Deposit Insurance Corporation				
401(C) Authority Off. Coll.	8.2	8.2	0.4	0.4
<b><u>Other Independent Agencies</u></b>				
<b><u>Other Historical and Memorial Agencies</u></b>				
Christopher Columbus Quincentenary Jubilee Commission				
Unobligated Balances - Admin.	-0.2	-0.2	*	*
<b><u>Washington Metropolitan Area Transit Authority</u></b>				
Interest Payments				
Budget Authority	25.8	25.8	-1.1	-1.1
<b><u>National Endowment for the Arts</u></b>				
Grants and Administration				
Unobligated Balances - Admin.	-0.2	*	*	*

## Summary of GAO Changes (continued)

(in millions of dollars)

Part II - Non-Defense Program Accounts	GAO Changes In			
	Sequester Base	Associated Outlays	Sequester	Associated Outlays
<b><u>Other Independent Agencies</u></b>				
<b><u>Railroad Retirement Board</u></b>				
Milwaukee Railroad Restructuring, Admin.				
Unobligated Balances - Admin.	-0.2	*	*	*
<b><u>Corporation for Public Broadcasting</u></b>				
Public Broadcasting Fund				
Budget Authority	159.5	159.5	0	0
<b>Totals, Part II</b>				
Budget Authority	537.4		7.3	
401(C) Authority	23.9		1.0	
401 (C) Authority - Off. Coll.	-7.5		-0.3	
Obligation Limitation	111.3		4.8	
Unobligated Balances - Admin.	-312.9		-13.4	
Outlays		445.5		3.3

\* = Amounts less than \$50,000

Matters for ConsiderationA. Statutory changes for consideration

We noted 5 instances in which the outcome of applying the rules does not appear to be consistent with the general approach taken with regard to other programs.

1. Washington Metropolitan Area Transit Authority

The Act requires a reduction in the annual appropriations to meet the Government's obligation to pay part of the debt service on Washington Metropolitan Area Transit Authority bonds. If the Government's failure to make its full payment led to a default on the bonds, the Government would still have to pay because the Federal Government has guaranteed the bonds. We believe it would be reasonable to exempt this program.

2. Federal Annuitant Health Insurance

The Act does not exempt the appropriation for the Federal share of Federal retirees' health insurance premiums from reduction even though the Act provides for no change in the health insurance program for Federal employees. We believe it would be reasonable to exempt this program.

3. Railroad Unemployment Insurance

Payment of unemployment insurance compensation by the Railroad Retirement Board from the Federal Unemployment Trust Fund is not exempt from reduction under the Act, even though payments of regular unemployment compensation by States from that fund are exempt. We believe it would be reasonable to treat railroad unemployment the same as regular unemployment compensation.

4. Panama Canal

Because of prior Treaty obligations, the savings resulting from administrative cost reductions of the Panama Canal Commission accrue to the benefit of the Republic of Panama rather than to the United States Government.

5. Mine Worker Exemption

Section 256(i) and section 257(1)(A) of the Act are redundant. Both have the effect of limiting reductions in disability benefits under the Federal Mine Safety and Health Act to the reduction or elimination of automatic spending increases.

B. Treatment of Discrepancies between program names and account listings

In at least two accounts exempted by section 255(h), a relatively small amount is appropriated for a program that, though similar in purpose to the exempted program, is not the program named in the Act. These are the adult categorical amounts contained in the Assistance Payments (Aid to Families with Dependent Children) Account (75-0412-0-1-609) and the commodity supplemental food program contained in the Feeding Program for Women, Infants and Children (WIC) Account (12-3510-0-1-605).

C. Definition of Account

Public Law 97-177 defines an account as "an item for which appropriations are made in any appropriation Act." It is not entirely clear what constitutes an "item" in an appropriation. For example, the District of Columbia appropriation act includes eight specified amounts under six separate headings. It is not clear whether this constitutes one, six, or eight accounts.

D. Administrative expenses funded from unobligated balances

Section 256(b) of the Act requires reduction of administrative expenses even in otherwise exempt accounts. However, prior year unobligated balances of non-defense agencies are not included in the sequesterable base as defined for those agencies. It is, therefore, not entirely clear whether administrative expenses funded from non-defense unobligated balances should be reduced.

E. Offsetting collections

Section 251 of the Act includes within the sequesterable base for non-defense agencies "spending authority." Spending authority is in turn defined, under another provision of the Act, to include authority "to make payments by the United States (including loans, grants, and payments from revolving funds) \*\*\* the budget authority for which is not provided in advance by appropriation acts." There is some uncertainty as to whether this language includes offsetting collections credited to an account.

F. OTHER ISSUES

1. Scorekeeping

There is a need to assure the consistent application of conventions concerning the treatment of some of the less common types of budgetary transactions. This involves such things as reappropriations, obligation limitations, and offsetting collections, where inconsistent application of the conventions could produce inconsistent results.

## 2. Timing of economic assumptions

Economic assumptions were largely irrelevant to this year's sequestration determination because the maximum permissible sequestrations would have occurred under most plausible sets of assumptions. In the future years, variations in economic assumptions will produce variations in sequestration results. The current process provides no statutory mechanism for separating those estimating differences attributable to economic assumptions from the other estimating differences or for agreeing in advance to a common set of economic assumptions.

## 3. Timing of data sharing

OMB and CBO's sharing with GAO of preliminary data, in compatible machine-readable form in most cases, facilitated GAO's process. It will be especially important for this cooperation to continue in the future when GAO will have one day less to make its determinations.

## 4. "Program" versus "Administrative" Expenses

Some programs were exempt while the administrative expenses were not. For example, the Postal Service fund is exempt, while the administrative expenses of the Postal Service are not; and payments from the Social Security Trust Fund to beneficiaries are exempt while the administrative expenses of the Social Security Administration are not. There was some difficulty in distinguishing between "program" and "administrative" expenses. These difficulties were overcome, but the Congress may wish to review the results and refine the legislation if the results are not what was expected.

## 5. Outlay estimating

Different agencies use different methodologies and a variety of data bases in estimating outlays and in particular spend-out rates. These produce different estimates. We sometimes found it difficult to distinguish between differences which resulted from different methodologies from those which reflected different program assumptions.

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