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MINERAL RESOURCES

H.R. 3967 - A Bill to Change
How Federal Needs for
Refined Helium Are Met

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today for the Subcommittee's hearing on H.R. 3967, a bill to amend the Helium Act of 1960 to prohibit the Department of the Interior's Bureau of Mines from refining helium and selling it and to dispose of the U.S. helium inventory. My remarks will draw on our October 30, 1992, report on meeting federal needs for helium¹ in which, among other things, we recommended that the Congress reassess how to meet current and foreseeable federal needs for helium.

In summary, Mr. Chairman, H.R. 3967 changes how federal needs for helium will be met by terminating the Bureau's refining capability and shifting the refining of federal helium to private industry. In addition, the bill provides for repayment of the helium program debt. Whether the federal budget will be adversely or favorably affected by enactment of H.R. 3967 will depend on whether private industry can sell refined helium to federal customers at a price that results in lower net outlays than the Bureau's current operating costs. In addition, the budgetary effects will depend on the revenues that the Bureau receives from disposing of the helium inventory. Choosing between the Bureau program and private industry to meet federal needs for helium is ultimately a public policy decision. We believe that H.R. 3967 provides a viable alternative for meeting current and foreseeable federal needs for helium with the potential for budgetary savings and repayment of the helium program debt. Before discussing the bill in detail, I would like to provide some background on the Bureau's program.

BACKGROUND

Helium is an element that occurs naturally in gaseous form. It is recovered from certain natural gas fields; in the United States, most of those fields are located in Kansas, Oklahoma, Texas, and Wyoming. Helium is separated from natural gas and stored in a concentrated form--referred to as crude helium--until it goes through the final refining process. The federal government uses helium in, among other things, the space program and weapons systems. For example, helium is used to purge the fuel tanks and lines of the space shuttle.

The Helium Act of 1960 was passed in response to growing federal needs for helium, especially for the space program, and concern that the nation's helium reserves were being rapidly depleted as helium was vented into the atmosphere by

¹Mineral Resources: Meeting Federal Needs for Helium (GAO/RCED-93-1, Oct. 30, 1992).

natural gas producers. The 1960 act authorizes Interior to conserve, buy, store, produce, and sell helium to meet federal and other needs. In addition, the act requires that federal agencies purchase their major requirements for helium from the Bureau of Mines. The Bureau's refining and storage facilities are located near Amarillo, Texas.

The objectives of the 1960 act are to (1) conserve helium for future use, (2) provide a sustained supply of helium sufficient for essential government activities, and (3) foster and encourage individual enterprise in the development and distribution of helium. As we have previously reported, we believe the Bureau has acted to meet these objectives.

The 1960 act required that the program's net capital and retained earnings, valued at about \$40 million, plus subsequent program borrowing from the U.S. Treasury for purchases of crude helium, which totalled about \$252 million, be established as debt in the Helium Fund. The act required that the helium program debt, plus compound interest, be repaid to the U.S. Treasury by 1995 from helium sales revenues. Because the Bureau did not set its sale price to federal agencies high enough to recover the initial program costs and subsequent interest, the debt in the Helium Fund had grown to about \$1.3 billion as of February 1994. About \$1 billion of this debt is interest.

Clearly, many of the conditions that existed when the Congress passed the Helium Act of 1960 have changed. In 1960, the Bureau was the sole producer of refined helium, but now a private helium industry supplies almost 90 percent of refined U.S. helium and could meet federal needs for helium if there were no Bureau program. Also, in 1960 there was concern that helium conservation was necessary to ensure that federal needs could be met, but now the Bureau has enough helium in storage to meet federal needs until at least 2070. Because these changes affected the act's objectives and the Bureau's ability to repay the helium program debt, our October 1992 report recommended that the Congress reassess how to meet current and foreseeable federal needs for helium. We also recommended that the program debt be canceled because canceling the debt would not adversely affect the federal budget.

PROVISIONS OF H.R. 3967

Now let me turn to H.R. 3967, which would make the following changes for meeting current and foreseeable federal needs for helium.

- The Bureau would cease refining crude helium and selling refined helium.

- The Bureau would sell crude helium to private industry in the amount needed to meet federal agencies' refined helium needs and the agencies would be required to buy refined helium from these industry sources.
- The helium program debt would be frozen at its October 1, 1993, level and would be at least partially repaid by revenues from the Bureau's sales of crude helium to private industry and the sale of the Bureau's refining assets.
- Beginning no later than 2014, all of the Bureau's crude helium would be sold, except for a small inventory that would be retained.
- Private industry would be required to fully reimburse the Bureau for use of the Bureau's crude helium storage.

At this time, I would like to discuss how the provisions of H.R. 3967 relate to the federal budget and the Bureau's helium program debt.

HOW H.R. 3967 WOULD AFFECT THE FEDERAL BUDGET

Under H.R. 3967, budgetary savings will be achieved if private industry sells refined helium to federal customers at a price that results in lower net outlays than the Bureau's current operating costs. The key factors in determining whether this happens are private industry's operating and capital costs, exclusive of the cost of the crude helium that will be purchased from the Bureau, and the amount of profit that industry would expect to receive.

The Bureau recovers its operating costs, such as wages and utilities, through sales to federal agencies. Because capital and inventory costs were previously recorded in the federal budget as outlays, they are not included in the program's current operating costs. To the extent that the Bureau's revenues from helium sales to federal agencies exceed its operating costs, these excess funds flow from the U.S. Treasury, through the agencies, through the Bureau, and back to the U.S. Treasury. The Bureau's operating costs are the only outlay of federal funds and its costs are an accurate reflection of the effect on the federal budget of operating the program. If the Bureau's program were to continue, it would have to reduce its operating costs to achieve budgetary savings. We have not, however, reviewed the efficiency of the Bureau's helium program.

Private industry prices, however, would reflect capital and crude helium costs and a return on investment as well as

operating costs. Therefore, the Bureau's and private industry's costs are not comparable. To achieve federal budgetary savings under H.R. 3967, private industry would have to sell refined helium to federal customers at a price, exclusive of its cost of crude helium that will be purchased from the Bureau, that is lower than the Bureau's operating costs. We have not, however, reviewed the ability of private industry to meet federal needs at such a price. When we were performing our work for our October 1992 report, we attempted to obtain private industry's costs but were unable to do so because the companies would not provide us with what they considered to be proprietary information.

The cost to private industry of the crude helium that it will purchase from the Bureau to meet federal users' needs will not affect the overall federal budget because that cost will be passed on to federal customers as part of the price for refined helium, resulting in a "wash" transaction. That is, the Bureau's revenues from the sale of crude helium will be offset by the portion of the price paid to private industry by federal customers for refined helium.

In addition, it should be recognized that beginning no later than 2014, when more federal crude helium will be sold than is needed to meet federal customers' needs, additional federal revenues will accrue, but the private crude helium marketplace likely will be impacted. When a new source of supply enters the marketplace, without an equivalent increase in demand, it is likely that the market price will be driven downward, adversely affecting crude helium producers.

REPAYMENT OF THE PROGRAM DEBT UNDER H.R. 3967

H.R. 3967 offers ways to repay a portion of the program debt. Specifically, the bill requires the sale of the federal helium inventory and the Bureau's refining assets. However, as we previously reported, the debt could be canceled outright with no effect on the federal budget.

None of the program debt represents current outlays by the federal government. The \$40 million for net capital and retained earnings represented funds that were appropriated and recorded in the federal budget as outlays since 1925, when the Bureau began supplying helium to federal users. The \$252 million for crude helium purchases and storage in the 1960s and 1970s was appropriated funds that were recorded in the federal budget as outlays in the years in which the funds were expended. Furthermore, the portion of the helium program debt that is interest is not, nor has it ever been, an outlay by the federal government. Rather, it is merely a paper transaction that has no effect on the federal budget or on taxpayers.

It should be noted that the Bureau's legislatively mandated purchase and holding of such a large inventory of raw material--the federal helium inventory--is not normal business practice. The \$252 million used to purchase this inventory was to meet a policy objective of the 1960 act--helium conservation. Nevertheless, the act required that this cost be repaid, plus compound interest, with revenues from routine operations. Therefore, if the Bureau's inventory expenditures were to be somehow factored into current operating costs, those costs would still not be comparable to private industry's operating costs.

To repay any part of the program debt, the Bureau must receive funds, in excess of its operating costs, that can then be returned to the U.S. Treasury. H.R. 3967 would return revenues in excess of the Bureau's costs, thereby repaying the helium program debt through the sale of the federal helium inventory, but selling the inventory would not affect the federal budget because revenues will be offset by equal agency outlays. The Bureau's crude helium would be sold to the private helium refining industry annually until at least 2014, in a quantity approximately equal to annual federal needs for refined helium. Beginning no later than 2014, most of the remaining inventory would be sold in the marketplace. The revenues from all crude helium sales would be recorded as reducing the program debt. In either case, the higher the price that the Bureau obtains for the crude helium, the higher the revenues, and the faster and more completely the debt can be repaid.

In addition, the sale of the Bureau's refining assets would generate revenues that would also go toward repaying the program debt. However, these assets may have little more than scrap value, and therefore their sale should not be expected to generate significant revenues.

It should be noted that under the 1960 act, the Bureau could have paid, and theoretically still could repay the program debt by 1995 by charging federal agencies a high enough price. Because those agencies by law must purchase their major requirements for helium from the Bureau, they would have no choice but to pay the higher price if they continued to purchase helium. However, this situation would not adversely affect the overall federal budget because if those agencies receive additional appropriations to pay for the higher-priced helium, the increased appropriations would be offset by increased revenues to the Bureau.

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In summary, Mr. Chairman, how to meet federal needs for helium is a public policy decision that should consider many

issues. We believe that H.R. 3967 provides a viable means of meeting current and foreseeable federal needs for helium with the potential for budgetary savings and repayment of the helium program debt.

Mr. Chairman, this concludes my statement. We will be happy to answer any questions that you or other Members of the Subcommittee may have.

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