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Analysis of the Grace Commission's Major Proposals for Cost Control

February 1984

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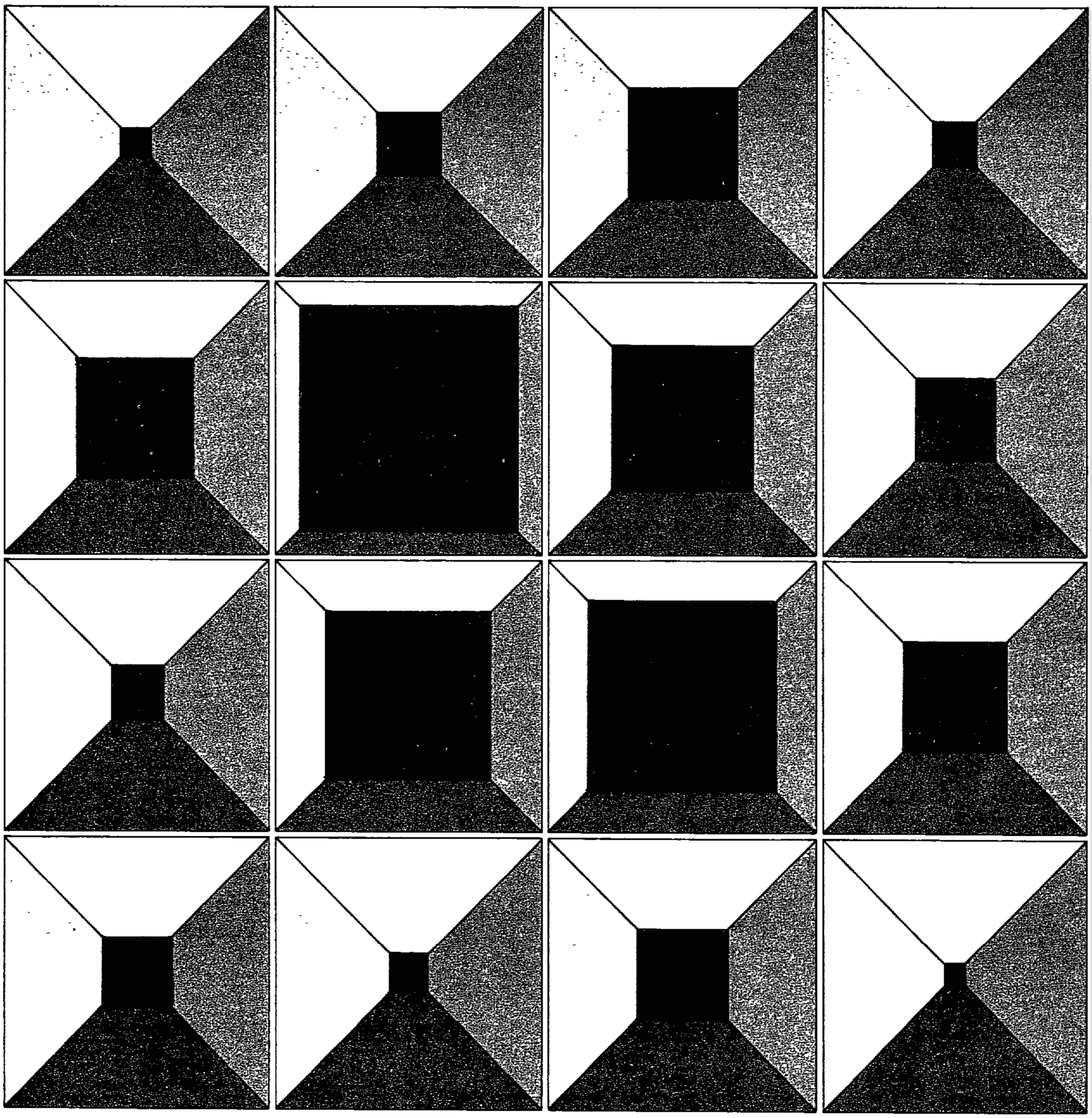

CONGRESS OF THE UNITED STATES

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ANALYSIS OF THE GRACE COMMISSION'S MAJOR PROPOSALS FOR COST CONTROL

The United States Congress
Congressional Budget Office
General Accounting Office

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PREFACE

This report was prepared in response to a request by both the House and Senate Committees on the Budget for an evaluation of the proposals made by the President's Private Sector Survey on Cost Control (PPSSCC), also known as the Grace Commission. The report focuses on those recommendations that the Grace Commission estimated would have major budgetary savings, and does not cover all of the PPSSCC proposals. The analysis of the major recommendations includes estimates of the possible budget impact for fiscal years 1985-1989, the likely impact on the federal programs involved, and the actions necessary to implement the proposals.

The analysis for this report represents a joint staff effort by the Congressional Budget Office (CBO) and the General Accounting Office (GAO). The staff work by the two agencies was coordinated by James L. Blum, Assistant Director for Budget Analysis for CBO, and by Peter J. McGough, Director of the Office of Program Planning for GAO. Robert L. Faherty of CBO supervised the editing and production of the report. Thelma L. Jones and Nancy H. Brooks coordinated the production of the many drafts. An appendix to the report gives the names of the major contributors to the analysis.

In accordance with CBO's mandate to provide objective and impartial analysis to the Congress, CBO takes no position on the relative merits of the PPSSCC recommendations. However, GAO's views on the merits of the recommendations are included in a number of instances where GAO's prior or continuing work so permits.

Charles A. Bowsher
Comptroller General

Rudolph G. Penner
Director

February 1984

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CHAPTER I. INTRODUCTION AND OVERVIEW

The outlook for the federal budget under current policies for the next five years is for large and growing deficits. The President's Private Sector Survey on Cost Control (PPSSCC) has submitted to the President nearly 2,500 recommendations, which it claims would save $424 billion over three years when fully implemented. The PPSSCC, better known as the Grace Commission, characterizes its recommendations as means for reducing program waste, correcting system failures, improving personnel management, and attacking structural deficiencies. The Congressional Budget Office (CBO) and the General Accounting Office (GAO) have reviewed nearly 400 of the PPSSCC recommendations that account for almost 90 percent of the potential three-year savings as estimated by the Grace Commission. To the extent possible, the impact of the PPSSCC proposals on the CBO baseline budget projections for fiscal years 1985-1989 was estimated, and an analysis of the likely program impact was made.

GAO analyzed whether the proposals could be implemented administratively or would require legislation, and focused its consideration on whether the proposals warrant support based on their individual merits. Many of the PPSSCC proposals were the subject of in-depth GAO reviews and evaluations. References to the related GAO reports are included in the individual analyses contained in the subsequent chapters of this report.

The CBO-GAO review found that the potential deficit reductions that might result in 1985-1987 from implementing most of these recommendations would be much smaller than the three-year savings projected by the Grace Commission. Without regard to the merits of the recommendations, the cumulative three-year deficit reduction for 1985-1987, including the off-budget deficit, is estimated to amount to $98 billion for those PPSSCC recommendations for which specific budget estimates could be prepared. This is 33 percent of the $298 billion of net three-year savings projected for these proposals by the Grace Commission and assumes that they are implemented by October 1, 1984. The CBO and PPSSCC estimates, however, are not fully comparable. The CBO estimates were calculated in federal budget accounting terms, whereas the PPSSCC estimates are characterized as planning figures and do not refer to specific years. Specific budget estimates could not be prepared for 122 of the commission recommendations reviewed because the proposals were too vague, or necessary data were not available. The fact that their budget impact could not be evaluated does not imply, however, that they are not worthy of further study and possible implementation.

Most of these recommendations involve various management improvements that could be implemented administratively. The bulk of the potential savings, however, relate to recommendations that would require significant changes in current laws and policies. The federal spending generated by the policies and programs studied by the Grace Commission has been subject to close scrutiny before and should continue to be reviewed for possible savings. The magnitude of the savings projected by the Grace Commission for its proposals in these areas, however, is much too large to be attributed simply to eliminating waste and inefficiency. Rather, the PPSSCC proposals should be characterized for the most part as possible changes in public policy that could help reduce mounting federal deficits.

Although the majority of the Grace Commission recommendations can be characterized as management proposals to achieve greater efficiencies or to operate on a more business-like basis, the bulk of the cost savings estimated by the PPSSCC are associated with proposals to change policies or to restructure programs. All of these proposals would require Congressional action.

These proposals all represent tough decisions with difficult trade-offs. The CBO-GAO analysis reveals that the Grace Commission has not found an easy solution to the federal deficit problem, although it has helped to focus attention within the Administration and the Congress on ways to control the rising cost of government.

In GAO's opinion, about two-thirds of the revised PPSSCC recommendations have some degree of merit. Specifically, of the 396 recommendations assessed, GAO identified 242 as having some merit, 83 as not having merit, and 71 for which GAO had no basis for an opinion. Of the 242 recommendations GAO believed had merit, it had previously made similar or related recommendations in 150 cases. It is important to note, however, that many of the recommendations that do not have merit in GAO's opinion were among those with large savings estimates in the PPSSCC reports. It is also important to note that GAO does not agree that all of the proposals for which CBO estimated budgetary savings are feasible or desirable. Conversely, GAO believes that many proposals for which CBO was not able to estimate budgetary savings have merit and deserve further consideration.

BACKGROUND

President Reagan established the PPSSCC by Executive Order No. 12369 on June 30, 1982, and named J. Peter Grace as chairman. The commission's mandate was to identify opportunities for increased efficiency and reduced costs achievable by executive or legislative action. The study effort, which took 18 months to complete, was led by an Executive Committee of 161 chief executive officers of major corporations and other private-sector experts. More than 2,000 individuals reportedly participated in the work of the PPSSCC, which was privately financed at an estimated cost of more than $75 million.

The PPSSCC was organized into 36 task forces, 22 of which were assigned to study specific departments and agencies, and 14 to study cross-cutting functions such as personnel, data processing, and procurement practices. Each task force produced a separate report to the President. In addition, the PPSSCC Management Office staff, which helped to coordinate the task forces, prepared another 11 reports on selected issues. The 47 PPSSCC reports contain 2,478 specific recommendations on 784 different issues. A two-volume, 650-page final summary report was also prepared and presented to the President on January 16, 1984.

The Grace Commission estimated that implementation of all of its recommendations could result in net savings and revenue increases of $424.4 billion over three years. The commission also estimated that accelerations of tax collections, debt repayments, and other receipts could amount to another $65.5 billion in cash-flow savings over three years. The PPSSCC, however, characterizes its estimates as being of a "planning" nature and not of "budget" quality. They represent potential savings during the first three years of implementation, not specific fiscal years. The three-year PPSSCC projections of cost savings and revenue increases were based on the assumptions that the annual inflation rate would be 10 percent, and that the average interest rate would also be 10 percent.

The overlapping nature of the work assignments given to the 36 task forces led to several instances of double counting of possible savings. The 11 Management Office reports also cover many of the same program and management areas included in the task force reports, thereby adding to the duplication of the PPSSCC savings estimates. In its final report to the President, the commission estimated that these duplications amounted to $120.6 billion over three years. This means that the sum of the three-year savings estimates contained in the 47 agency or subject matter reports add to $545.0 billion. Appendix A of this study provides a list of the 47 reports and the number of issues and recommendations contained in each.

FOCUS OF THE CBO-GAO ANALYSIS

Because the two Budget Committees were interested in having a CBO and GAO analysis of the PPSSCC recommendations in time for use in developing the first budget resolution for 1985, they requested that this joint report be issued in February 1984, little more than a month after the commission's final report was presented to the President. Given the short time available to review the many commission recommendations, we believed it essential to direct our analysis toward those PPSSCC proposals that potentially could produce the largest budgetary savings. As the final Grace Commission report to the President observes, and as presented in detail in CBO's recent baseline budget projections for 1985-1989, the prospect for the federal budget under current policies is large and growing deficits. Any serious proposals to reduce these deficits to less alarming levels deserve close attention.

Accordingly, we selected for review only those recommendations that the PPSSCC estimated could produce savings of $1 billion or more over a three-year period. Several other closely related recommendations were also selected for review. The result is that the joint CBO-GAO review covers 396 specific recommendations on 131 different issues as identified in the PPSSCC reports. While this amounts to only 16 percent of the total number of recommendations made by the various task force and management office reports, the recommendations reviewed account for nearly 90 percent of the net three-year cost savings and revenue increases, and 95 percent of the cash accelerations, as estimated by the commission in its final report to the President (see Table I-1). Taken individually, most of the other PPSSCC recommendations were estimated by the commission to produce relatively small or no budgetary savings.

TABLE I-1. COVERAGE OF CBO-GAO ANALYSIS

	PPSSCC Proposals	CBO-GAO Review	Percent
Number of Issues	784	131	16.7
Number of Recommendations	2,478	396	16.0
PPSSCC Three-Year Savings/Revenue Increases (billions of dollars)	424.4	379.0	89.3
PPSSCC Three-Year Cost Accelerations (billions of dollars)	65.5	61.9	94.5

In examining the 396 PPSSCC recommendations selected for review, CBO and GAO staff examined the basis for the claimed savings potential, developed--where possible--estimates of the potential budgetary impact for fiscal years 1985-1989, identified the likely effect of the recommendations on the federal programs involved, and determined what actions would be necessary to implement them. In accordance with our respective roles and areas of expertise, CBO developed the budgetary estimates, while GAO focused on the merits of the recommendations, as well as program impact and implementation issues.

For purposes of analysis and discussion, the PPSSCC recommendations reviewed were grouped into 90 separate sets of proposals. These proposals are examined in detail in Chapters II to VI of this report, and the results of the analysis are summarized in the following sections of this chapter.

In preparing estimates of potential budgetary impact, CBO adhered to a strict methodology. First, potential budgetary savings were measured against a uniform and fully documented set of budgetary baseline projections for the next five fiscal years. These projections are based on the assumptions that inflation rates average about 5 percent and short-term interest rates about 8 percent for this period. 1/ Second, potential outlay savings or revenue gains were estimated only for those recommendations that were sufficiently specific to provide a basis for cost analysis and for which data were available to develop a budget impact statement. Third, the estimates assume that any needed Congressional action would be taken this year, and that the proposals would be implemented at a reasonable pace in line with past administrative performance. Fourth, the budget estimates made for individual proposals do not include possible lower interest costs resulting from lower deficits or reduced borrowing needs, consistent with CBO's methodology for preparing bill cost estimates for the Congress. An estimate of possible lower interest costs is provided in this chapter, however, assuming that all of the reviewed PPSSCC recommendations as a group are implemented and eliminating any overlap or duplication among them. Also, possible interest savings are indicated for some proposals involving acceleration of tax collections within the fiscal year. Finally, the CBO estimates are based on "static" economic assumptions; that is, the estimates do not take into account the possible effect of deficit reductions on the economy, particularly on interest rates and inflation.

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1. For a detailed description of these baseline projections, see Congressional Budget Office, Baseline Budget Projections for Fiscal Years 1985-1989 (February 1984).

In assessing the merits of the PPSSCC's recommendations, GAO relied primarily on its prior and ongoing work, as well as its institutional knowledge developed through extensive and long-term review activities of virtually all major federal programs and activities. In fact, GAO's work, in a number of instances, formed the basis for the Grace Commission's recommendations.

POTENTIAL BUDGETARY IMPACT

The savings estimates for the Grace Commission proposals analyzed in this report for which CBO could determine the potential budgetary impact for 1985-1987 are summarized in Table I-2. The cumulative three-year reductions from CBO's baseline projections for the unified budget deficit amount to $74.4 billion. Reductions in off-budget spending would add another $23.4 billion during 1985-1987, bringing the three-year total deficit reduction to $97.9 billion.

Savings shown for national defense programs are small--$9.2 billion over the first three years--because the budget impact for most of the proposals in this area could not be estimated. Budget savings in the national defense function would be larger in terms of budget authority because, under accrual accounting, the function would immediately reflect long-run retirement savings under the PPSSCC proposals. The numbers shown in Table I-2 for national defense reflect outlay savings. Estimated savings for entitlements and other mandatory spending programs sum to $15.0 billion for 1985-1987. Proposed reductions in nondefense discretionary spending and increased user charges are estimated to total $11.9 billion for this period. Another $13.0 billion in reduced outlays would result from proposals affecting federal civilian employment and compensation, with proposed revisions in the Civil Service Retirement program accounting for most of this amount. Potential revenue increases of $16.2 billion over the three-year period are also estimated, with the largest increase associated with the proposal to tax federal subsidies. Finally, the resulting reductions in the deficits over this period would lower net interest costs by another $9.1 billion using CBO's baseline interest rate assumptions.

The basis for the CBO estimates shown in Table I-2 is discussed in detail in the five succeeding chapters, beginning with national defense and concluding with the potential revenue increases.

Comparison with Grace Commission Estimates

It was possible to develop estimates of potential budgetary impact for 67 of the 90 sets of Grace Commission proposals analyzed in this report.

TABLE I-2. CBO SAVINGS ESTIMATES FOR MAJOR GRACE COMMISSION PROPOSALS (By fiscal year, in billions of dollars)

	Annual Savings or Revenue Increases			Cumulative 3-Year Impact
	1985	1986	1987	
Savings from CBO Outlay Baseline a/				
National defense	1.7	5.3	2.1	9.2
Entitlements and other mandatory programs	2.8	3.9	8.3	15.0
Nondefense discretionary programs and user charges	3.5	3.7	4.7	11.9
Federal civilian employment and compensation	3.2	4.1	5.7	13.0
Subtotal	11.3	17.0	20.9	49.1
Addition to CBO Revenue Baseline	2.5	5.0	8.7	16.2
Reduction in Interest Costs	0.8	2.7	5.6	9.1
Unified Budget Deficit Reduction	14.5	24.7	35.2	74.4
Off-Budget Outlay and Deficit Reduction	6.7	8.3	8.4	23.4
Total Deficit Reduction	21.3	33.0	43.6	97.9

SOURCE: Congressional Budget Office.

a. CBO baseline projections for unified budget outlays.

For the other 23 sets of proposals reviewed, budget estimates could not be prepared because either the proposals were too vague or the available information too scant. As noted earlier, the commission prepared what it characterized as planning figures for its proposals and did not attempt to make specific budget estimates. Furthermore, the commission noted in its reports that recommendations were not all based on the same level of research and analysis and that, as a result, their planning figures are not all of the same quality.

Where specific budget estimates could be made by CBO, 8 sets of PPSSCC proposals were found to have no budget impact for the next three years, 4 sets of proposals to entail added costs rather than savings, 9 sets to produce greater savings over three years than projected by the PPSSCC, and 46 sets to generate lower budget savings for 1985-1987 than implied by the Grace Commission three-year estimates. The total savings estimated by CBO for 1985-1987, including lower interest costs and off-budget savings, for the 67 sets of proposals for which budget impact estimates could be made is 33 percent of the $298.4 billion of net three-year savings projected for these proposals by the Grace Commission in its planning figures. These results, and comparison with the PPSSCC three-year savings estimates, are summarized in Table I-3. Appendix B provides the PPSSCC and CBO three-year savings estimates for each of the 90 sets of Grace Commission proposals reviewed in this report.

The PPSSCC reports include several proposals that have already been acted upon by the Congress and are being implemented. As a result, the estimated budget effects of these proposals are included in CBO's baseline projections and no further savings are expected. Two examples are the proposals to raise Railroad Retirement payroll taxes and to increase debt collection through the use of private collection agencies. These proposals are covered by the provisions of the Railroad Retirement Solvency Act of 1983 and the Debt Collection Act of 1982. Several other proposals would not have any near-term budget impact, such as the proposal to increase private participation in space programs and to improve the enforcement of the Social Security earnings limit through an updated computer system.

Several Grace Commission proposals would add to federal budget costs rather than achieve savings. These include the proposals to reform the pay processes for federal employees to make them more comparable with the private sector. Because annual pay raises have been limited for a number of years to levels below those measured under the current comparability surveys, changes in these surveys would not produce savings but would raise costs. Also, the proposal to eliminate commodity donations to federal agencies would not affect the budget totals, and freezing the level of donations would add to storage costs.

In other instances, the CBO budget estimates for 1985-1987 are larger than the net three-year savings projected by the Grace Commission. The largest difference is for the effect of the PPSSCC proposal to replace the direct loan programs of the Farmers Home Administration (FmHA) and the Small Business Administration (SBA) with loan guarantees. The CBO savings estimate includes the effect of this proposal for off-budget financing of these loans by the Federal Financing Bank, which is not included in the Grace Commission estimate. CBO also has higher three-year savings

TABLE I-3. A COMPARISON OF THREE-YEAR SAVINGS ESTIMATES (Savings in billions of dollars)

	No. of CBO-GAO Analyses	No. of PPSSCC Rec's.	PPSSCC 3-Year Planning Ests.	CBO Budget Estimates for 1985-1987
Budget Impact Estimates Could Be Made				
No budget impact	8	21	13.2	0
Added costs rather than savings	4	29	8.5	-1.8
Greater savings than estimated by PPSSCC	9	22	5.9	33.0
Lower savings than estimated by PPSSCC	46	202	270.8	66.7
Subtotal	67	274	298.4	97.9
Budget Impact Estimates Could Not Be Made	23	122	80.7	N.A.
Total	90	396	379.0	N.A.

estimates for the PPSSCC proposals to consolidate student loan programs in the Department of Education, to impose user fees for certain Coast Guard services, and to change the Civil Service Retirement system's accounting practices.

The CBO savings estimates summarized in Tables I-2 and I-3 were not constructed on the same basis as the Grace Commission estimates and, therefore, are not fully comparable. The CBO estimates show the potential budget impact for fiscal years 1985-1987, assuming implementation beginning October 1, 1984. As noted earlier, the PPSSCC estimates are said to represent potential savings during the first three years of implementation without regard to specific fiscal years. In some instances, the PPSSCC reports acknowledge that the recommendations could not be implemented in the next three years. In other instances, the reports make clear that the potential savings would come much later--in the 1990s or even later.

The CBO savings estimates also were calculated in federal budget accounting terms--that is, in terms of budget authority, outlays, and revenues. The CBO savings estimates for 1985-1987 shown in Table I-2 and elsewhere in this chapter are in terms of added revenues and/or lower outlays from the levels projected under a continuation of current laws and policies. Thus the CBO savings estimates indicate the potential effect of the PPSSCC proposals for reducing projected budget deficits. The Grace Commission savings estimates, on the other hand, were sometimes calculated in terms not used for the federal budget. As a result, many of the PPSSCC savings estimates are not true indicators of possible budget deficit reductions in the next three years.

For example, the PPSSCC savings estimates for its proposed changes in federal civilian and military retirement benefits are based on projected payroll costs in the years 2001 to 2003 and have been discounted to their estimated 1983 value. 2/ The CBO estimates for these proposals included in Table I-2, however, are based on the potential impact for reducing the 1985-1987 budget deficits and, understandably, are considerably lower. On the other hand, the PPSSCC savings estimates most widely used by the Grace Commission do not include cash-flow changes, although these are noted separately. Accelerating tax collections, debt repayments, or other changes in cash flow, however, can have a measurable impact on the level of federal revenues and outlays for a specific fiscal year and thus can result in lower budget deficits. These effects are included in the CBO budget estimates.

Two other caveats should be considered in comparing the CBO and Grace Commission savings estimates. First, in order to develop many of the budget estimates, specific assumptions had to be made about the details of the proposals and how they would be implemented; in some instances, CBO analysts could not find the PPSSCC's assumptions in its published reports or background materials. Therefore, the CBO assumptions might not exactly reflect what the PPSSCC task forces assumed for their savings estimates. Second, a great amount of uncertainty should be attached to many of the PPSSCC and CBO savings estimates, particularly for proposals that call for substantial change in current laws, policies, and administrative practices. There usually is no way to determine exactly what happened in the past when laws, policies, or practices were similarly changed, so it is not possible

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2. The precedent for this approach is the treatment of military retirement costs in the 1985 defense budget, which is on a similar accrual accounting basis. In the new budget treatment, however, the accrual costs are offset in other accounts, making modest the overall impact of long-term changes on near-term outlay and deficit totals.

to determine the extent to which projected effects for these changes were realized. As a result, a number of assumptions have to be made about how future changes will affect government spending and revenues, and these may not prove to be correct.

The potential deficit reductions for 1985-1987 resulting from the adoption of all of the PPSSCC recommendations could be larger than those shown in Tables I-2 and I-3, since the CBO estimates apply to 70 percent of the savings estimated by the Grace Commission. Also, the CBO estimates do not include possible dynamic budget effects resulting from induced changes in the economy, especially lower interest rates brought about by lower budget deficits. On balance, however, it is CBO's judgment that the Grace Commission estimates of possible savings that could be derived from its recommendations during the next three years are overstated. This judgment apparently is shared by the Grace Commission.

Proposals for the Next Three Years

In recent testimony before the Senate Finance Committee, Mr. Grace emphasized that the commission's three-year savings estimate of $424 billion did not refer to particular fiscal years and certainly not the next three. He identified a number of PPSSCC proposals, however, that he believed could be realized within the next three years with minimal political resistance. These proposals, which cover 44 issue areas in the PPSSCC reports, are in the area of inventory management, loan management, tax collections, cash management, reduced error rates, user charges for federal services, and general management. The PPSSCC three-year savings estimates for these proposals amount to $59 billion. 3/

The CBO-GAO review of the Grace Commission reports covered 19 of these 44 issues identified by Mr. Grace. CBO was able to develop 1985-1987 budget estimates for 15 of these issues for which the commission estimated three-year savings of $33.3 billion. CBO estimates for these issues somewhat higher savings--amounting to $36.2 billion over the three-year period (see Table I-4).

For three of the issues recommended by Mr. Grace, amounting to $7.7 billion in the PPSSCC three-year estimates, CBO found no budget impact relative to its baseline projections for two reasons. Either the savings would not be realized until after 1987, or the proposals already are being implemented. For three other issues, however, CBO estimates that there would be a greater budget impact during 1985-1987 than projected by

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3. See prepared statement by Mr. J. Peter Grace for the Senate Finance Committee, February 8, 1984.

TABLE I-4. CBO THREE-YEAR SAVINGS ESTIMATES FOR SELECTED PPSSCC PROPOSALS a/ (Savings in billions of dollars)

	No. of Issues	PPSSCC Planning 3-Year Estimates	CBO Budget Estimates for 1985-1987
Selected PPSSCC Proposals for Which CBO Could Estimate Budget Impact			
No budget impact	3	7.7	0
Greater savings than estimated by PPSSCC	3	4.6	27.6
Lower savings than estimated by PPSSCC	9	21.1	8.5
Subtotal	15	33.3	36.2
Selected PPSSCC Proposals for Which CBO Could Not Estimate Budget Impact	4	15.6	N.A.
Selected PPSSCC Proposals That CBO-GAO Did Not Review	25	9.8	N.A.
Total	44	58.7	N.A.

SOURCE: Congressional Budget Office.

a. PPSSCC proposals identified by Mr. Grace in testimony before the Senate Finance Committee on February 8, 1984 as proposals that could be implemented during the next three years with minimal political resistance.

the PPSSCC. As noted earlier, CBO projected greater savings for 1985-1987 for replacing FmHA and SBA direct loans with loan guarantees, for consolidating student loan programs, and for imposing user fees for certain Coast Guard services than estimated by the PPSSCC. For these three proposals, CBO estimates that the 1985-1987 budget impact would amount to $27.6 billion in deficit reductions compared to the PPSSCC three-year savings projection of only $4.6 billion. The remaining nine issues targeted by Mr. Grace that CBO was able to put into budget terms would produce deficit reductions of $8.5 billion. This CBO estimate is about 40 percent of the PPSSCC three-year savings projection.

The potential deficit reductions for 1985-1987 for the 44 issue areas selected by Mr. Grace presumably would be larger than the $36 billion that CBO was able to estimate. Congressional action would be needed to achieve most of these savings, and several would raise major policy issues.

MANAGEMENT PROPOSALS

The majority of the Grace Commission recommendations selected for review are concerned with management issues, such as financial management, procurement practices, management of real property, and management of research and development programs. Approximately 40 percent of the three-year cost savings estimated by the Grace Commission for the 396 recommendations examined by CBO and GAO can be attributed to proposed management improvements. GAO has previously recommended many of these management improvements, and some are currently being implemented. About half of the PPSSCC estimated three-year savings could be achieved by administrative measures without further action by the Congress. The other half of the management savings would require Congressional action.

A comparison of the PPSSCC three-year savings estimates and the CBO estimates for 1985-1987 for 54 sets of Grace Commission proposals that can be characterized as management improvements is shown in Table I-5. It was possible to develop specific budget estimates for 32 sets of proposals involving 105 different recommendations. For these proposals, 20 sets of management proposals for which cost estimates could be prepared are projected to save $17.5 billion over three years, about 30 percent of the amount estimated by the Grace Commission of the remainder, 6 sets were found to have no effect on CBO's baseline projections for 1985-1987; 1 set would increase costs rather than produce savings; and 5 sets would result in slightly larger deficit reductions than estimated by the PPSSCC. The total amount of savings relative to CBO's baseline projections for 1985-1987 is estimated to be $21.5 billion, compared to $73.4 billion in three-year savings estimated by the PPSSCC.

The largest management saving would derive from augmenting the Internal Revenue Service's (IRS) staffing for collection of delinquent taxes and examination of tax returns, and from the disposition of tax cases brought before the U.S. Tax Court. CBO estimated savings amounting to $3.7 billion for 1985-1987 (and $13.0 billion over the five-year period 1985-1989) for this set of proposals, compared to $10.7 billion in three-year savings estimated by the PPSSCC. These proposals were among those suggested by Mr. Grace as appropriate for quick action. The CBO savings estimate is lower mainly because the goal of halting the growth of

TABLE I-5. PPSSCC MANAGEMENT PROPOSALS REVIEWED BY GAO AND CBO (Savings in billions of dollars)

	No. of CBO-GAO Analyses	No. of PPSSCC Rec's.	PPSSCC 3-Year Planning Ests.	CBO Budget Estimates for 1985-1987
Budget Impact Estimates Could Be Made				
No budget impact	6	17	10.2	0
Added costs rather than savings	1	2	1.2	-0.2
Greater savings than estimated by PPSSCC	5	6	1.9	4.2
Lower savings than estimated by PPSSCC	20	80	60.1	17.5
Subtotal	32	105	73.4	21.5
Budget Impact Estimates Could Not Be Made	22	119	79.8	N.A.
Total	54	224	153.2	N.A.

backlogged tax collections has largely been accomplished through IRS staff increases provided by the Congress in 1983 appropriations. GAO agrees with the recommendations for further staff increases for the collection of delinquent taxes and the examination of returns, but not with the recommendation to establish an appellate tax board. Rather, GAO has recently made alternative recommendations to the Tax Court that, when implemented, should achieve the PPSSCC's objective at a lower cost.

One of the largest three-year management savings projected by the Grace Commission was associated with a number of recommendations to improve federal work force productivity. The PPSSCC contends that the federal government, like any other employer, can improve productivity by changing its methods of operations, raising employees' skill levels, and investing more than it does now in work-facilitating equipment. CBO has tentatively estimated that the PPSSCC management proposals could lead to a federal productivity rise over four years of an extra 4.4 percent, which could yield net annual long-term compensation savings of some $1.8 billion. But because of the time required to accomplish changes, the near-term outlay savings would amount to only $0.5 billion for 1985-1987, compared to the PPSSCC three-year savings estimate of $17.1 billion.

Despite considerable federal activity and interest in improved productivity over the past 12 years, GAO has found agency efforts ill-prepared and poorly directed, disjointed, short-lived, and hence ineffective. Potential government-wide improvements in labor productivity, according to GAO calculations, would come mainly from five categories of federal work: compliance and enforcement of regulations, natural resource and environmental management, education and training, administration of loans and grants, and health-related services.

In four separate reports, the Grace Commission recommends more contracting out to private firms for certain support services, including maintenance, security, and data processing. Current Executive Branch policy, as set forth in OMB Circular A-76, requires the government to contract for these services unless federal workers can perform them at less cost. Reliance on the private sector for support services has been federal policy since 1955, but without effective implementation in GAO's view. The CBO estimates long-term savings from contracting out at $1.1 billion annually, about one-fifth of the PPSSCC estimate of $5.6 billion. The CBO estimate assumes no change in the current statutory restrictions on contracting out for certain services in the Veterans Administration and the Defense Department, and much smaller average savings per conversion to contract.

Under an accelerated A-76 program, CBO estimates that as many as 165,000 federal jobs, mostly blue-collar, could shift to private firms, with most of the job shifts occurring in defense agencies. In the near term, however, savings would be much smaller than the estimated long-term amounts because the proposals would have to be implemented gradually and there would be costs associated with transferring functions to the private sector, including payments to laid-off federal workers. CBO estimates that outlay savings for 1985-1989 would accumulate to about $0.7 billion. Additional outlay savings approaching $0.4 billion would occur over the same period if restrictions on contracting out at DoD and the VA were lifted. While Circular A-76 can be carried out administratively, GAO believes that effective implementation will not occur unless the Congress legislates a national policy on contracting out.

In another management proposal, the Grace Commission proposed various administrative steps for tightening the enforcement of the statutory Social Security earnings test provisions to reduce overpayments. Mr. Grace singled out this proposal as one of those appropriate for achieving $4.0 billion in savings during 1985-1987 in his recent testimony before the Senate Finance Committee. CBO estimates, however, that little or no savings would result from these recommendations over the next five years, although savings could occur in later years. GAO reports that the Social Security Administration (SSA) has already accelerated its enforcement efforts, and that further reductions in overpayments are likely only after SSA's computer system is upgraded. The PPSSCC report on the Social Security Administration acknowledges that a new computer system would not be available until 1989 at the earliest.

The Grace Commission made a number of other management proposals for which CBO was not able to estimate budget savings against its baseline projections. Either the proposals were so general in nature that estimating assumptions could not be made, or there were insufficient data available to use for preparing a savings estimate. These proposals included a number of recommendations for improving government procurement practices and real property management, especially in defense programs. Examples of such recommendations include making greater use of multiyear procurement of major weapons systems, increasing the practice of acquiring weapons from dual sources, establishing and maintaining more efficient production rates for weapons systems, improving defense inventory management, and increasing the use of common parts and standards. Conceptually, these proposals make good sense, some have been recommended before, and are endorsed by GAO on the basis of their merit, and others need further study. Many, in fact, were included as part of the so-called Carlucci initiatives announced by the Defense Department in 1981. Undoubtedly, significant savings are possible, but these generally cannot be calculated in terms of budgetary impact for 1985-1989 without more specific proposals.

Similarly, the PPSSCC task forces made a number of proposals for improving the management of research and development (R&D) programs, both in the Defense Department and for civilian programs. Some of the R&D recommendations were too general to permit measurement of possible budgetary impact. One recommendation relating to independent R&D charges to defense contractors could increase costs to the government. The commission also proposed that the Veterans Administration develop and utilize a hospital resource allocation and planning model based on diagnosis-related groups to achieve estimated savings of $4.9 billion over three years. CBO and GAO expect that the savings are overstated but do not consider an accurate estimate feasible, because any savings would depend upon policy decisions that were not specified by the PPSSCC and cannot be predicted.

Consistent with the results of many GAO reports, the Grace Commission also recommends a major increase in the acquisition of computers in order to replace obsolete hardware and to achieve greater efficiencies and productivity. CBO and GAO point out that budgetary savings in this area are heavily dependent upon effective management and acquisition strategies. The budget impact cannot be determined, however, because it is not known whether the added equipment would be leased or purchased. If new equipment were leased, immediate budget expenditures would go down. But if the new equipment were purchased--which would lead to even greater savings over its life cycle--the immediate budget impact would be higher expenditures.

POLICY AND PROGRAM PROPOSALS

Of the 90 sets of PPSSCC proposals reviewed by the CBO and GAO, 36 sets involving 172 different recommendations are proposals to change policies or to restructure programs. As such they would require Congressional action. The Grace Commission's three-year savings estimates for these recommendations add to $225.8 billion, or 60 percent of the total three-year savings estimated by the commission for proposals analyzed in this report. CBO projects that these proposals could achieve deficit reductions amounting to over $75 billion during the next three years if implementation starts by October 1, 1984 (see Table I-6).

In its analysis of PPSSCC's policy and program proposals, GAO disagrees with several proposals, such as those to limit federal employees' compensation and benefits--proposals that represent some of the larger Grace commission savings estimates. On the other hand, GAO believes there is merit in several other policy proposals including those to repeal the Davis-Bacon and Service Contract Acts.

Proposals with No Budget Impact

CBO was able to develop budgetary impact estimates for all but one of the Grace Commission policy and program proposals. A comparison with the PPSSCC three-year savings estimates is provided in Table I-6. Two proposals were found to have no budget impact. One proposal--to increase Railroad Retirement tier 2 payroll contributions--has been superseded by the passage last year of the Railroad Retirement Solvency Act (P.L. 98-76). The other proposal--to increase private participation in the commercial uses of space by using private financing for a possible fifth space orbiter--could produce future economies but not savings relative to the CBO baseline. The CBO baseline assumes funding for four orbiters for the space shuttle program. As funding for a fifth orbiter would increase baseline spending, any private sector participation would merely reduce these additional spending requirements.

TABLE I-6. PPSSCC POLICY AND PROGRAM PROPOSALS REVIEWED BY GAO AND CBO (Savings in billions of dollar)

	No. of CBO-GAO Analyses	No. of PPSSCC Rec's	PPSSCC 3-Year Planning Ests.	CBO Budget Estimates for 1985-1987
Budget Impact Estimates Could Be Made				
No budget impact	2	4	3.0	0
Added costs rather than savings	3	27	7.3	-1.6
Greater savings than estimated by PPSSCC	4	16	4.7	28.8
Lower savings than estimated by PPSSCC	26	122	210.7	49.2
Subtotal	35	169	225.0	76.4
Budget Impact Estimates Could Not Be made	1	3	0.9	N.A.
Total	36	172	225.8	N.A.

Proposals That Would Increase Costs

Three other PPSSCC proposals were estimated to result in added costs relative to the CBO baseline rather than savings. Two of these proposals involve reforming the process for determining pay comparability adjustments for federal white-collar and blue-collar employees. The PPSSCC gives qualified support to the principle of basing compensation of federal employees on comparability with the nonfederal sector, but finds the present process for measuring comparability flawed in several ways. To achieve a better measure of comparability, the PPSSCC task force on personnel management recommended several modifications that would require legislation. The PPSSCC recommendations would not change the current practice of annually adopting an alternative salary plan that caps federal white-collar pay rates at levels lower than the comparability rate. At this point, CBO and GAO estimate that salaries for both white-collar and blue-collar employees are below levels comparable to the private sector, even with the changes in measuring comparability proposed by the Grace Commission, so that no near-term budgetary savings would be achieved from these recommendations. In fact, the proposals would increase administrative costs, and a one-time catch-up adjustment for blue-collar workers would add $0.9 billion to the CBO baseline for 1985-1987.

The other PPSSCC proposal that CBO estimates would increase costs rather than produce savings relative to its baseline projections involves the federal employees health benefit program (FEHBP). The PPSSCC's Report on Personnel Management claims that the total cost of FEHBP would decline if federal policies and practices were better aligned with the private sector's. The task force made 16 recommendations to improve the program and to contain costs, including a reduction in the wide range of plan benefits now offered, the elimination of the 75 percent cap on government contributions, a reallocation in the cross-subsidies among participants, and the encouragement of cost competition by obtaining bids from insurance companies on governmentwide plans. GAO believes that there is no evidence to suggest that implementation of the PPSSCC recommendations would reduce costs by the commission's estimate of $1.4 billion. CBO estimates that the net effect of reducing the government's costs and the benefit level for certain retirees would be more than offset by increased costs for administrative expenses and for lifting the 75 percent ceiling on agency contributions up to 100 percent of certain FEHBP premiums. Lifting the 75 percent ceiling alone would cost the government more than $1.2 billion through 1989.

Proposals with Greater Estimated Savings

On the other hand, CBO estimates greater near-term savings relative to its baseline projections than implied by the PPSSCC three-year savings estimates for four other proposals. The largest difference is for the proposal to convert the direct loan programs of the Farmers Home Administration (FmHA) and the Small Business Administration (SBA) direct business loan program to partially guaranteed loan programs. The current FmHA and SBA loan guarantee maximum of 90 percent also would be reduced to 75 percent. According to the PPSSCC, substituting guaranteed lending for direct lending would transfer more responsibilities and risk from the federal government to the private sector. The PPSSCC three-year savings estimate for this proposal was calculated in terms of reduced subsidy costs to the government, but the CBO estimates for 1985-1989 are in terms of the impact on the federal budget, and would be much larger. Guaranteed loans are not recorded in the federal budget except for the costs of defaults, but direct lending is recorded on a net basis. The net effect of the PPSSCC proposal would be to eliminate projected direct lending from the CBO baseline. The impact would be mostly on off-budget spending in

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terms of fewer loan asset sales to the Federal Financing Bank. For 1985-1987, CBO estimates the savings of this proposal to be $23.2 billion in off-budget outlays.

The conversion from direct loans to partial loan guarantees would significantly change the roles of the FmHA and SBA by reducing their ability to serve households and businesses with limited financial resources. A substantial portion of the current FmHA direct loan assistance is heavily subsidized. Market rate loans, especially for rural housing, would be beyond the reach financially of many of those now eligible for direct loans. New firms with little financial history would be those most affected by the elimination of the SBA direct business loan program.

Proposals with Lower Estimated Savings

For 26 of the other Grace Commission proposals involving changes in policies and programs, CBO projects lower savings for 1985-1987 than implied by the PPSSCC three-year savings estimates. As shown in Table I-6, CBO estimates 1985-1987 savings of $49.2 billion for these 26 pro-posals, or less than 25 percent of the PPSSCC three-year savings estimate. The bulk of the PPSSCC estimated three-year savings--almost 85 percent--is associated with proposals in just five areas. These proposals are to tax federal subsidies (estimated by PPSSCC at $58.9 billion); revise retirement benefits for federal employees ($58.1 billion); limit the growth in federal health care costs to GNP growth ($28.9 billion); sell the federal power marketing administrations and take other measures to reduce their costs ($19.1 billion); and repeal the Davis-Bacon, Walsh-Healey, and Service Contract Acts ($11.6 billion). If approved, CBO estimates that these proposals would yield savings of $30 billion for the next three fiscal years, and $79 billion for 1985-1989.

Taxing Federal Subsidies. The scope of the Grace Commission proposal to tax federal subsidies is very broad, ranging from cash benefits under Social Security or Aid to Families with Dependent Children (AFDC), to in-kind goods and services such as food stamps and Medicaid, and to tax advantages such as the Accelerated Cost Recovery System. In particular, the PPSSCC sees poor targeting and duplication of benefits to individuals qualifying for several means-tested programs as giving rise to substantial waste of federal dollars. Besides the potential increase in tax receipts, the Grace Commission sees improved targeting of means-tested benefits as an important effect from taxing federal subsidies. The PPSSCC proposal involves issuing a W-2 type form to beneficiaries of federal subsidies, with a copy going to the IRS. Recipients would be required to include their benefits in their taxable income, to the extent that total benefits exceeded some unspecified cut-off point. Although the PPSSCC discusses the inclusion of all federal subsidies in taxable income, its estimated savings result solely from the taxation of means-tested benefits. CBO estimates that taxation of means-tested benefits could raise significant revenues--roughly $15 billion over the 1985-1989 period.

The commission indicated that its proposal was necessary because many federally subsidized programs, especially means-tested programs, have not been effective in reducing the poverty gap because they serve individuals who have incomes above the poverty level. GAO believes that these programs were designed to provide services or benefits to help individuals with specific problems, not to reduce the poverty gap. The commission did not assess the proposal's impact on the states or how to determine the cash value of in-kind benefits. GAO therefore believes implementation of this proposal would be difficult and problematic.

Revising Retirement Benefits. The PPSSCC proposes several changes in retirement benefits for both civilian and military employees in order to bring them into closer alignment with what is characterized by the commission as typical private-sector retirement practices. The recommendations apply to both civilian and military retirement programs and include such changes as raising the retirement age, basing pensions on lower salary bases, reducing cost-of-living adjustments (COLAs) and integrating federal pensions with Social Security. The budgetary impact of these proposals for 1985-1987 would result mainly from COLA limits on benefits to current retirees and reductions in their current benefit levels attributed to the elimination of military service credits and the application of Social Security offsets. The major budgetary impact would not come until after 1990.

The PPSSCC proposals would reduce sharply retirement benefits to civilian employees and retirees. For military personnel, the proposals would increase retirement pay for those who retire with 10 to 19 years of service, but would sharply reduce retired pay for those with 20 or more years of service. These benefit reductions could result in retention losses for both civilian and military personnel unless they were offset by increases in other forms of compensation. In GAO's opinion, some of the individual proposals have merit, but GAO does not agree with the PPSSCC assertion that the proposals, as a package, are representative of retirement practices in the private sector. GAO believes that, particularly for federal civilian employees, adoption of the PPSSCC proposals would result in lower benefits than those received by their private-sector counterparts. Moreover, the proposals to reduce benefits that federal employees and retirees have already earned could be subject to question in the courts.

Limiting Growth in Health Care Costs. A third major Grace Commission proposal is to constrain rapidly rising government spending for health care services. During 1975-1983, federal health care expenditures grew at 14 percent annually compared with an average increase of 10 percent per year in the gross national product (GNP). Under the CBO baseline projections, the growth in federal outlays for Medicare and Medicaid will continue to outpace the expected growth in the U.S. economy. Although some of the rapid growth in health care outlays can be attributed to inflation, most has resulted from increased usage. The PPSSCC attributes much of the rapid increase in health care costs to lack of competition and to low out-of-pocket expenses for persons receiving health services.

The PPSSCC proposes to limit the increase in federal spending for Medicare, Medicaid, and other federal health care services programs to the rate of growth of the U.S. economy (as measured by GNP). Available funds would be allocated geographically on a per capita basis to be used to purchase health care services on a competitive basis. The Grace Commission did not specify exactly what services would be available to beneficiaries, although the proposal would allow consumers to choose among plans with varying degrees of coverage and premium levels.

GAO notes that federal and state governments are currently experimenting with many elements included in the overall Grace Commission recommendations. GAO believes fundamental questions regarding not only costs, but also quality and availability of health care should be answered before adopting the commission's proposal. GAO therefore does not believe it appropriate to implement the proposal now.

CBO projects that under current laws Medicare expenditures would grow from 11 percent to 15 percent a year over the next five years, and Medicaid at 9 percent a year. Under CBO's baseline assumptions, the effect of the PPSSCC proposal would be to limit the growth of Medicare and Medicaid to about 8 percent a year. Since this proposal includes such a fundamental change in the federal health care programs, particularly for Medicare, the CBO savings estimates assume at least a two-year implementation period before savings would be realized. By 1989, under this proposal, CBO projects that Medicare and Medicaid expenditures would be 90 percent of projected outlays under current law. Although payments to providers of health care services could be reduced somewhat, CBO and GAO believe that savings of this magnitude in federal health care programs would also require reducing benefits, tightening eligibility requirements, or increasing cost sharing and premium amounts for beneficiaries.

Reducing PMA Costs. The Grace Commission recommends reducing the costs of the five federal power marketing administrations (PMAs) in three ways: requiring the PMAs to repay federal investments on a timely basis and at market interest rates; charging a user fee for water used to produce electricity; and eventually selling the PMAs to nonfederal entities. The PPSSCC estimate of three-year savings amounting to \$19.1 billion assumes the selling of the PMAs. The CBO estimate for 1985-1987 of \$1.2 billion includes only estimated savings from the proposed repayment reforms and user charges. Selling the PMA facilities is not expected to yield any savings until after 1989 because of the lead time needed to implement that proposal. All three PPSSCC recommendations would increase the price charged for electricity from these federal facilities--by about 25 percent for the Bonneville Power Administration in the near term, and by as much as 80 percent if the PMAs are sold.

GAO supports the first recommendation but has reservations about the second because of recent changes that have significantly increased the PMAs' power rates. With respect to selling the PMAs to nonfederal entities, GAO points out that the PPSSCC based its analysis only on the production of electricity and did not address the actions needed to assure that the other purposes of the facilities--such as irrigation, navigation, flood control, and fish and wildlife protection--will continue to be met. GAO also notes that the federally generated power now marketed in 38 states is generally lower cost than other alternatives, and changing the preference rights to this power provided by current law to public bodies and electric cooperatives would represent a significant policy change.

Repealing Wage-Setting Laws. The Grace Commission believes that three major federal wage-setting laws--the Davis-Bacon, Walsh-Healey, and Service Contract Acts--are no longer necessary or productive, and should be repealed. The commission projects savings of \$11.65 billion over three years if these acts were repealed. The CBO estimate of possible savings for 1985-1987 is somewhat lower--\$5.3 billion--because it would take several years before the savings would have a major effect on budget outlays. GAO agrees that the Davis-Bacon and Service Contract Acts should be repealed. But if the Davis-Bacon Act is repealed, GAO believes that the Secretary of Labor should consider periodically reviewing construction contracts awarded by the government to assess whether any egregious situations occurred affecting the employees working on the contracts. Also, if the Service Contract Act is repealed, GAO recommends that the administrator of federal procurement policy monitor the impact of repeal and, if he determines that repeal had an adverse impact on service workers, develop administrative policies or legislative remedies to correct the problem. GAO has not taken a position on repeal of the Walsh-Healey Act, but it agrees with the Grace Commission's recommendation to eliminate the act's requirement for overtime pay for workdays exceeding eight hours.

Other Proposals. Other policy and program proposals by the Grace Commission include limiting the use of tax-exempt revenue bonds by state and local government for private purposes; modifying Food Stamp benefits to reduce the overlap with child nutrition benefits and to target benefits more closely with individual needs; restricting federal employees' disability benefits and reducing paid annual leave benefits to achieve closer comparability with the private sector; changing Civil Service Retirement accounting and investment practices; raising interest rates on government loans, increasing the origination fee on guaranteed student loans, and raising pension guarantee premiums in order to operate in a more business-like fashion; consolidating student loan programs and also federal highway programs to reduce costs; and imposing user fees on certain Coast Guard services. Some of these proposals have been included in recent Administration budgets and others are receiving active consideration by the Congress.

USE OF THIS REPORT

The five succeeding chapters provide greater detail on the major Grace Commission recommendations reviewed by CBO and GAO. They are organized in terms of general budget categories, namely national defense, entitlement and other mandatory spending programs, nondefense discretionary spending and offsetting recipts, federal civilian compensation and employment, and revenues. Each begins with a summary of the PPSSCC proposals included in the chapter and is followed by more detailed analyses of their near-term potential budgetary impact, their likely program impact, and how the proposals could be implemented--by legislative or administrative action. In all, the five chapters provide an analysis of 396 Grace Commission recommendations covering 90 different areas of government activity.

The CBO and GAO were not able in the time available for this analysis to review all of the 2,478 recommendations made by the 36 PPSSCC task forces and the 11 Management Office reports. However, both agencies are prepared to assist Congressional committees in reviewing any of the PPSSCC recommendations not covered by this report.

A difficulty of working with the many Grace Commission reports is the lack of a good index to the various recommendations. However, CBO has obtained from the Grace Commission a computer data base that provides summary information on each of its recommendations. This data base can be sorted into a variety of categories, such as budget functions and committee jurisdictions, which can serve as useful indexes to the PPSSCC reports. Appendix A to this report provides a more detailed description of this computer data base and the types of listings it can produce. Appendix B lists the three-year PPSSCC cost savings as well as CBO's cumulative savings estimates for 1985-1987 for the 90 sets of recommendations analyzed in this report. Appendix C provides summary listings by budget function of the CBO five-year estimates of potential budget impact of these PPSSCC proposals. Appendix D lists the CBO and GAO staff members responsible for this analysis.

CHAPTER II. NATIONAL DEFENSE

The Grace Commission devoted considerable effort to reviewing defense programs in order to identify possible savings through management improvements and other cost-reducing measures. Four task forces were assigned to conduct separate reviews of the Office of the Secretary of Defense, the Air Force, the Army, and the Navy. In addition, a number of other task forces, which were assigned to study cross-cutting functions such as data processing, procurement, and hospital management, also made recommendations for achieving cost savings in defense programs. This chapter covers 112 different recommendations made by 12 separate PPSSCC task forces and by management office reports. The Grace Commission estimated that the net savings over a three-year period, after allowing for duplications and overlaps, would be $94 billion.

CBO's discussion of the Grace Commission recommendations for national defense programs is organized into 21 separate analyses. It was possible to develop budget estimates for 1985-1989 for only six of these analyses. For the other 15 analyses, either the recommendations made by the PPSSCC task forces were not sufficiently specific to develop a reasonable estimate of budgetary impact, or the potential budgetary impact could not be estimated with available information. Where CBO could develop budget estimates, the cost savings for the first three years are considerably below the three-year savings estimates made by the Grace Commission. As shown in Table II-1, these amount to $9.2 billion for the three-year period 1985-1987, compared to $35.7 billion estimated by the Grace Commission for these proposals.

Most of the difference between the CBO and PPSSCC three-year savings estimates is accounted for by the proposal to revise military retirement pay. The PPSSCC three-year estimates of savings for its military retired pay proposals are in terms of accrued costs, which include liabilities that will not result in payments until far in the future, whereas the CBO estimate for 1985-1987, included in Table II-1, is in terms of budget outlay savings that will occur in these years. CBO's estimate of savings in terms of accrued costs is $22.7 billion for the first three years, compared to $28.1 billion projected by the Grace Commission.

TABLE II-1. A COMPARISON OF THREE-YEAR SAVINGS ESTIMATES FOR NATIONAL DEFENSE PROGRAMS
(In billions of dollars)

	Number of Recommendations Reviewed	PPSSCC Three-Year Savings	CBO Outlay Savings for 1985-1987 a/
PPSSCC Recommendations for Which CBO Could Estimate Budget Impact	22	35.7	9.2
PPSSCC Recommendations for Which CBO Could Not Estimate Budget Impact	90	58.5	N/A
Total	112	94.2	N/A

SOURCE: Congressional Budget Office.

a. Excludes interest savings from lower deficits.

PROPOSALS WITH MEASURABLE BUDGET IMPACT

The Grace Commission proposals for which CBO could measure budgetary impact include revisions in military retirement pay, revisions in military commissary operations, two medical cost proposals, removal of restrictions on silver stockpile sales, and revision of progress payment rates for DoD contracts. CBO's 1985-1989 savings estimates for these proposals are shown in Table II-2.

The PPSSCC proposal that would have the largest measurable budget impact in the next five years involves a number of revisions in military retirement pay to reduce costs and to make benefits more comparable to those in the private sector. The major revisions include providing full annuities only at age 62 rather than at the date of retirement (typically at age 43) as is now the case; basing annuities on the highest five years of basic pay and lowering the retirement credit per year of service to about 2.1

TABLE II-2. CBO ESTIMATES OF BUDGETARY EFFECTS OF SELECTED PPSSCC DEFENSE PROPOSALS

Commission Proposals	Annual Savings (billions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Revise Military Retirement Pay						
Budget Authority	6.6	7.6	8.5	9.4	10.5	42.6
Outlays	-0.3	0.2	0.6	0.8	1.3	2.6
Revise Military Commissary Operations						
Budget Authority	0.3	0.4	0.4	0.4	0.4	1.9
Outlays	0.3	0.4	0.4	0.4	0.4	1.9
Shift CHAMPUS Users to Military Health Care Facilities						
Budget Authority	0.2	0.3	0.3	0.3	0.4	1.5
Outlays	0.2	0.3	0.3	0.3	0.4	1.5
Recover Medical Care Costs from Private Health Insurers						
Budget Authority	0.2	0.3	0.3	0.3	0.3	1.4
Outlays	0.2	0.2	0.3	0.3	0.3	1.3
Remove Restrictions on Silver Stockpile Sales						
Budget Authority	--	--	--	--	--	--
Outlays	*	*	*	*	*	0.2
Reduce Progress Payments for DoD						
Budget Authority	--	--	--	--	--	--
Outlays	1.3	4.2	0.5	--	0.2	6.2

* Numbers less than $50 million.

SOURCE: Congressional Budget Office.

NOTE: Negative figures indicate budgetary costs.

percent of basic pay from the old rate of 2.5 percent; reducing retired pay by a share of Social Security benefits attributable to military service; setting a cost-of-living allowance at the lesser of the percentage change in the Consumer Price Index (CPI) or the percentage change in Basic Military Compensation (BMC) and lowering the adjustment after age 62 to one-third of the change in the CPI; and introducing an annuity beginning at age 62 for those who leave the military between 10 and 19 years of service (and who now receive nothing).

As noted above, CBO's 1985-1987 estimate of outlay savings for retirement pay is $0.5 billion, which includes an estimate of the added costs resulting from increased attrition and turnover of active-duty military personnel as a result of implementing this proposal. The outlay savings reflect the impact on federal budget deficits for 1985-1987, while the budget authority figures largely reflect retirement accrual charges for future cost savings that occur when personnel currently on duty actually retire. While reducing cost, this proposal would also reduce the proportion of career personnel and the experience level of active-duty forces.

GAO believes the underlying problem with the PPSSCC recommendations on military retirement pay is that they ignore the impacts these changes would have on military manpower management, force profiles, and other elements of personnel costs. GAO believes that the questions that should be addressed before changes in the retirement system are recommended are: (1) what are the most militarily effective force profiles--these may differ by service and occupation--and (2) how should the total compensation system--including the retirement components--be structured to support the desired force profiles at least cost?

The PPSSCC made three different proposals to close or privatize military commissary operations in order to reduce the level of DoD commissary subsidies. For the proposal to close all commissaries located in the continental United States, CBO estimates 1985-1987 savings of $1.0 billion. Two alternative proposals, for which the commission estimated savings of $1.4 to $2.5 billion, involve contracting out the operation of certain commissaries. CBO is unable to estimate savings for these two proposals because the specific commissaries are not identified at this time. GAO agrees that the issue of whether DoD should continue to operate commissaries in the continental United States is a valid issue and should be pursued.

The Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) reimburses eligible personnel for services of civilian health care providers. The commission proposes that DoD require most CHAMPUS beneficiaries living inside catchment areas (defined as areas within roughly

40 miles of a military hospital) to use the military facility. Such a change should cause a reduction in care provided by the private sector and an offsetting increase in care provided by less expensive military hospitals and clinics. GAO believes this might be difficult because of the varying capabilities of military hospitals to provide a full range of medical services to beneficiaries residing within catchment areas.The CBO 1985-1987 outlay savings estimate of $0.8 billion is roughly one-third smaller than the commission's estimate of $1.2 billion. The difference between the two estimates is largely due to the PPSSCC's assumption that many additional patients could be absorbed by military hospitals and clinics without any additional cost.

Some people who are eligible for care in DoD medical facilities are also covered by private health insurance. The PPSSCC proposes that private insurers be required to reimburse DoD for services provided in DoD facilities. GAO supports many of the PPSSCC proposals and, in fact, has made the same or similar recommendations in the past. This proposal is already included in the 1985 defense budget request. CBO estimates 1985-1987 outlay savings of $0.7 billion, one-third less than the commission's estimate of $1.2 billion. The CBO estimate is lower than the PPSSCC estimate because of a lower estimate of the number of patients with insurance coverage and a lower estimate of the share of costs that private insurers would pay.

Another proposal involves the sale of excess silver from the strategic stockpile. The PPSSCC savings estimate of $1 billion assumed that 105 million troy ounces of surplus silver could be sold in one year at market prices that existed at the time the recommendation was made. Because the silver proposed for sale equals 25 percent of annual world consumption, CBO and GAO believe that the surplus silver could not be sold in one year without a very substantial discount from the market price. To maximize revenue, CBO and GAO believe that if the silver were sold over an extended period, proceeds of $40 million per year could be realized from 1985 to 1989. CBO and GAO foresee the same savings as the commission but over a much longer period of time.

The PPSSCC also proposed a ten-percentage-point reduction in the level of progress payments made to DoD contractors to help finance work in progress on undelivered weapons systems and equipment. The effect of this proposal would be to shift outlays to later years. The CBO savings estimate of $6 billion is approximately 54 percent of the PPSSCC three-year estimate of $11.2 billion. Part of the difference is due to PPSSCC's inclusion of an assumed reduction in debt incurred by the government to finance contracts at the higher rates. CBO has excluded the potential debt reduction from this portion of the estimate. One should note, however, that this simply delays expenditures and that future expenditures must rise by an offsetting amount.

GAO believes that no action on the recommendation to alter progress payments should be taken until the issue is thoroughly examined. The PPSSCC has raised the concern that DoD contract financing provisions, as reflected in the current progress payment rate structure, are too generous. The PPSSCC in recommending the scaling back to February 1981 rates, suggests a change in the procurement system without considering the full impact. One area in which the impact is sure to be felt is the reaction of contractors to the removal of something they value (a more positive cash flow). To an unknown extent, contractors are going to expect changes somewhere else in the terms and conditions of government contracts to compensate for what they are surrendering.

PROPOSALS FOR WHICH BUDGET IMPACT CANNOT BE ESTIMATED

Budget estimates could not be made for a significant number of Grace Commission proposals where the estimating methods were hypothetical or based on across-the-board percentage reductions in expenditures. These estimates, at best, are illustrative and are not founded on historical data, detailed analyses, specific budget proposals, or programmatic changes. This does not mean that the recommendations lack merit or are ill conceived. Indeed, the PPSSCC recommendations generally are based on widely accepted principles of good management and efficiency. The recommendations do not permit cost estimates, however, for two reasons.

First, in at least 90 recommendations, the Grace Commission proposals lack sufficient programmatic detail to permit CBO to establish a cost estimate. For example, the PPSSCC estimated that DoD could save $7.8 billion over three years if the military services were to use improved management procedures in the procurement process. It based the savings it identified upon what PPSSCC acknowledges is the "largely judgmental" assumption that approximately 7 percent of total procurement costs could be avoided by improving procedures. The commission's reports explicitly note that the cost estimates are judgmental, but that similar methods in the private sector have proved useful "for comparing/evaluating available alternatives." Similarly, the commission notes that $1.6 billion could be saved by improving the efficiency of operations in DoD laboratories. The savings estimate is based on the assumption that costs could be lowered by 5 percent, "based on OSD Task Force industry experience." While these cost estimates may be adequate for illustrative purposes, the Congress requires more detailed programmatic information for budget purposes.

Second, in at least 68 of these same recommendations, CBO would not be able to project estimated savings even if the Grace Commission had provided sufficient programmatic information. In one proposal, PPSSCC recommends improving the planning and management process for research and development and suggests this could save $6.1 billion. The PPSSCC report estimates savings by assuming across-the-board reductions in the DoD R&D accounts of 2.5 percent for management improvements and an additional 5 percent in long-range planning improvements. Even in retrospect it would not be possible to document the savings produced by these policy changes. Thus, even if the Grace Commission reports had provided sufficient programmatic detail for the recommendations, no valid cost estimate could be made.

Finally, it should be noted that the PPSSCC proposals include 33 recommendations that parallel management initiatives that are being implemented to varying degrees by DoD. In April 1981, the Administration launched a major series of reforms called the DoD Acquisition Improvement Program (AIP), popularly known as the Carlucci initiatives, which were intended to introduce stability to the acquisition process. These initiatives include use of multiyear procurement, dual-sourcing for procurement, and more efficient production rates, as well as other means toward improved management of the procurement process, all of which were major PPSSCC recommendations. For three years, DoD budget proposals have incorporated certain Carlucci recommendations on individual weapons systems. The Congress has already considered many of those proposals. For example, the Congress has approved 21 multiyear programs for which DoD claims savings of $3.4 billion, and is being asked in 1985 to approve 12 new programs. In this way, CBO believes that some of the recommendations of the Grace Commission have already been incorporated in the DoD budget. Neither GAO nor CBO have validated the savings claimed by DoD.

Even though estimates of budget impact could not be made for a significant number of PPSSCC proposals, GAO believes that many of the proposals have merit. These fall into four principal areas: procurement of weapons systems, management of bases and base activities, management of research and development programs, and financial management. For example, PPSSCC recommended that DoD increase the use of common parts and standards in weapons systems. PPSSCC also recommended that DoD establish a timetable for the consolidation of depot-level maintenance functions. GAO has done several reviews which showed that substantial savings could result from implementation of those recommendations.

There are some PPSSCC proposals that cause GAO some concern. One proposal, for example, dealing with independent research and development changes to defense contracts could increase costs to the government.

REFORM MILITARY RETIREMENT PAY (RETIRE-1,2,4,5,6,9)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	6,600	7,600	8,500	9,400	10,500	42,600
Outlays	-300	200	600	800	1,300	2,600

NOTE: Estimated effects on costs and military manpower are preliminary.

PPSSCC Proposal. The commission recommends sharply modifying the military nondisability retirement system to reduce costs and restructure incentives to remain in the military. Under one of the key changes, members who complete 20 or more years of service would receive full and unreduced annuities only at age 62; today they are available immediately upon separation from service (which occurs around age 40 for the typical retiree). The PPSSCC plan would allow members to elect receipt of annuities as early as age 55, but at a permanent annuity reduction of one-half percent for each month that the annuitant's age at initial receipt falls short of his 62nd birthday. In the five years after they retire, members would also be eligible for "transition payments" worth about 44 percent of the retirement pay they currently receive during those years. These changes would only apply to those current active-duty personnel who had fewer than ten years' service at the time the plan was implemented. More senior current service personnel could still receive immediate, permanent, unreduced annuities if they retired after 20 or more years of service.

A second major change in the PPSSCC plan concerns the annuity formula. At present retirement pay is equal to 2.5 percent of final basic pay, multiplied by the number of years of service. (Those entering service after September 7, 1980, will have their retirement pay computed on the basis of the average of their highest three years of basic pay.) The PPSSCC would change this formula to 1.6 percent of average Basic Military Compensation (BMC)--the sum of basic pay, basic allowances for quarters and subsistence, and the tax advantage of these tax-free allowances; this is approximately equivalent to 2.1 percent of basic pay. Retirement pay would be based on average pay during the five years when pay was highest, rather than final or the three highest years of pay. The commission proposal would exempt personnel within three years of retirement from this change; in addition, all service performed prior to enactment would earn retirement credits at the old rate of 2.5 percent of basic pay. Finally, retirement pay would be reduced by the share of Social Security benefits attributable to military service. This reduction would be phased in over four years and would apply to all retirees.

The commission plan would also greatly alter current provisions for cost-of-living adjustments (COLAs). Annuitants who chose to begin to receive retirement benefits before age 62 would initially receive the lesser of the percentage change in the Consumer Price Index (CPI) or the percentage change in BMC. Once a retiree reached his 62nd birthday and became eligible to receive Social Security benefits, however, his military retirement pay would be adjusted by only one-third of the change in the CPI. These provisions, including the one-third COLA after age 62, would apply immediately to all retirees. There is no provision in the PPSSCC proposal to adjust or index either BMC or the annuity amount between the date of separation from service and the time that the retiree actually begins to receive retirement pay. Thus, for those who do not receive annuities until age 55 or later, inflation could significantly erode the value of benefits before any were received.

Not all of the PPSSCC's changes would be reductions. Under the proposal, those leaving the military with between 10 and 19 years of service would receive an annuity beginning at age 62; today they receive nothing. These persons could also elect an annuity as early as age 55 with the same percentage reduction noted above. All persons on active duty would immediately become eligible for this benefit.

Once fully implemented, the combined impact of these changes on military retirement benefits would be dramatic. A typical enlisted retiree (E-7 with 20 years of service) who retired today and lived an average number of years in retirement would, in today's dollars, receive lifetime retirement benefits with a present (cash) value of $271,000. The PPSSCC alternative would reduce the value of retirement benefits by 78 percent below the current system. A senior enlisted retiree (E-9 with 30 years of service) would receive $474,000 under the current system but would suffer a 62 percent reduction under the PPSSCC proposal. Reductions in officer benefits would be similar in percentage terms. A typical officer (O-5 with 20 years of service) would lose 69 percent (of $576,000) and a senior officer (O-6 with 30 years of service) would lose 50 percent (of $785,000).

This proposal has some structural similarities to the proposed Retirement Modernization Act (1973) and Uniformed Services Retirement Benefits Act (1979), both of which were submitted to but never acted on by the Congress. Many of the commission proposals are new, however, and in its overall thrust and proposed cost reductions, the plan goes well beyond the scope of previous recommendations.

Budgetary Impact. CBO estimates that in the five years after implementation the commission proposal would reduce budget authority for military retirement by $42.5 billion. Under current accounting procedures, budget authority represents money that would be set aside or "accrued" to pay future benefits. Savings in this accrual account would not be fully realized as reductions in net outlays for many years because of the PPSSCC provision that partially exempts from changes all current retirees and many current active-duty personnel.

Outlay savings in the federal budget would be much smaller--$2.6 billion for the same five-year period. In the first years after enactment of the change, reduced reenlistments among senior service personnel would generate increased requirements for new recruits and concomitant increases in accession and training costs. After an initial increase in federal outlays for these costs of military personnel, modest net savings would be realized from lower COLAs and Social Security offsets for current retirees.

The PPSSCC report does not provide an estimate of savings in total federal outlays, but it does estimate accrual savings of $28.1 billion in the three years after full implementation of the new military retirement system. CBO's savings estimate for the corresponding period is $32.7 billion. The modest difference between the CBO and commission estimates appears to result from differences in the estimated accrual cost percentages. The PPSSCC asserts that changes in military retirement should have the objective of reducing the accrual cost to less than 18 percent of BMC, compared to an accrual cost of 41 percent of BMC under the present system. CBO estimates that the long-run accrual cost of the PPSSCC proposal (including the government's share of Social Security benefits attributable to military service) would be 19 percent of basic pay, or 14 percent of BMC. The larger reduction in normal cost under the CBO estimate leads to the larger savings projected for the accrual cost of the retirement system.

Program Impact. The commission proposal would increase retirement pay for some military personnel--those who leave with between 10 and 19 years of service--but would sharply reduce such pay for most. For most service members the incentives to remain in service would be reduced, and, in the absence of compensating changes in other personnel policies, a significant decline in the number of experienced military personnel could be expected. CBO estimates that the decrease in the size of the enlisted career force (defined as those with four or more years' service) would be about 14 percent, or 126,000 members. Officer reductions would be smaller, at 11 percent, or 22,000 members. Thus the services would have fewer experienced personnel to operate and maintain sophisticated equipment. Moreover, increases in the number of new entrants would be needed to maintain planned military strengths. Without improvements in recruiting incentives, there probably would then be shortages of recruits or a decline in the overall quality of new entrants.

The PPSSCC argued that these adverse effects on recruiting and the career force could be offset with increases in current pay (such as bonuses) while still reducing federal costs substantially. This may well be true, though the PPSSCC does not offset such added pay costs against its estimates of savings (nor, therefore, does CBO). But the increases would be large relative to current levels and so would represent a major change in military compensation policies.

The changes recommended by the commission would also affect personnel management policies. Incentives for longer careers among those completing 20 years of service would be sharply increased by elimination of the immediate annuity available under the current retirement system. At present, military personnel policies discourage retention among this group in order to increase promotion opportunities for more junior personnel. It is likely that the services would have to change their personnel policies to accommodate the different career force that would be retained under the PPSSCC plan. Changes in personnel policies might necessitate modification of existing laws, such as the Defense Officer Personnel Management Act.

Finally, the commission proposal risks unanticipated effects because of the sweeping nature of its recommended changes. CBO's estimates of effects on the career force are based on historically observed changes in retention in response to changes in pay and benefits. The benefit changes recommended by the commission go far beyond those observed historically. In consequence, there could be greater-than-estimated changes in retention, posing greater threats of adverse effects on the career force and thus the readiness of the military services.

Implementation. None of the elements of the PPSSCC proposal could be implemented without enabling legislation.

References. PPSSCC, Management Office Report, vol. VI, Federal Retirement Systems, pp. 1-97. GAO, The 20-Year Military Retirement System Needs Reform (FPCD-77-81, March 1978). GAO, Need for Overall Policy and Coordinated Management of Federal Retirement Systems (FPCD-78-49, December 1978). CBO, Modifying Military Retirement: Alternative Approaches, forthcoming.

billion from reduced operating costs. When tax revenues from increased private-sector operations were included, the commission's three-year savings estimate rose to $2.5 billion.

Program Impact. Closing all CONUS commissaries would have both positive and negative effects. Personnel and facilities costs would be reduced. But military personnel and their dependents would pay higher food prices (and sales taxes in some cases), comparable to those charged by private, nonsubsidized, food stores. The loss of the commissary benefits could have an impact on military retention. A decrease in retention would lead to increased training and recruiting costs, or would require increasing some other benefit to maintain current retention levels. Those civilian personnel currently employed by the commissary system would become unemployed, but employment at local private food markets would probably increase. State and local governments with sales taxes on food would enjoy increased revenues as commissaries do not collect sales taxes.

A recent DoD study of private operation of commissaries yielded mixed results. Two locations, Ft. Leonard Wood and Yuma Proving Grounds, were surveyed from 1981 to 1983. At Yuma, it was determined that a contractor could operate the government-owned facility less expensively, and contract operations began in December 1983. At Ft. Leonard Wood, the study indicated that continuing the present system would be less expensive than converting to contract employees. But the commission proposal would privatize the entire system, which is significantly different from employing personnel within the government-owned commissary system.

Implementation. These proposals would require changes in DoD administrative procedures. Privatization would require a series of contracts with private firms to operate commissaries.

Additional Comments. GAO agrees that the issue of whether DoD should continue to operate commissaries in the continental United States is a valid issue and should be pursued.

References. PPSSCC, Task Force Report on Privatization, pp. 122-41; Task Force Report on Personnel, pp. 276-86; Management Office Report, The Cost of Congressional Encroachment, pp. 34-41, 115; GAO, The Military Commissary Store: Its Justification and Role in Today's Military Environment (FPCD-73-88, May 1975). GAO, Military Commissaries: Justification as a Fringe Benefit Needed Consolidation Can Reduce Dependence on Appropriations (FPCD-80-1, January 1980).

REVISE MILITARY COMMISSARY OPERATIONS
(OSD-32, PRIV-5, CONG-1-3)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	258	387	402	418	435	1,900
Outlays	256	377	402	418	434	1,887

NOTE: Savings only from proposal to close all CONUS commissaries.

PPSSCC Proposals. The commission makes two separate, alternative proposals to revise commissary operations. First, DoD should close all military commissaries in the continental United States (CONUS) and allow the post exchange (PX) system to operate a full-line food facility where adequate commercial food stores do not exist. Alternatively, the Secretary of Defense should order comprehensive market-basket surveys of all commissaries and competing civilian warehouse food stores. If the commissaries are not competitive with the food stores, they should be operated by private firms. The latter proposal was made by two separate task forces.

Budgetary Impact. CBO estimates the savings from closing all CONUS commissaries could total $1.9 billion over the next five years and $1.0 billion over the first three years. This estimate assumes that savings from salaries and other costs would be partially offset by one-time costs for employee severance pay and closing facilities. But a one-time saving would also occur as commissary food inventories were liquidated. This estimate assumes that closing commissaries would not affect the retention of military personnel, although that might not be the case. Since the PX system is self-supporting, no additional costs would be incurred from establishing PX food operations. The PPSSCC's three-year savings estimate of $1.0 billion was based on its estimate of the number of positions that would be eliminated from closing commissaries.

CBO cannot estimate the savings from the second proposal--converting certain unspecified commissaries to private operation. Such an estimate would require knowing which commissaries would be converted. As indicated in the PPSSCC report, identifying these would require a comprehensive survey by DoD. The PPSSCC estimated three-year savings of $1.4

SHIFT CHAMPUS USERS TO MILITARY HEALTH CARE FACILITIES (OSD-28)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	260	285	310	340	370	1,565
Outlays	208	272	301	331	360	1,472

PPSSCC Proposal. The Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) reimburses eligible personnel for the services of civilian health-care providers. Today, active-duty and retired military personnel and their dependents who live within the so-called "catchment" areas (defined as areas within roughly 40 miles of a military hospital) must receive prior permission to bill CHAMPUS for nonemergency treatment in civilian hospitals. The local military medical commander gives permission in the form of a nonavailability certificate (NAC) for care that is not available in government facilities because of staff or equipment shortages, or if denying civilian care is medically inappropriate. Beneficiaries do not need a NAC to use CHAMPUS for outpatient care.

The commission recommends that CHAMPUS stop paying for most inpatient and outpatient care of people living inside the catchment areas. The PPSSCC assumes that military hospitals and clinics would provide the services formerly provided by the private sector. Under the PPSSCC proposal, CHAMPUS could continue to pay only for psychiatric and emergency care.

Budgetary Impact. CBO estimates that narrowing CHAMPUS coverage inside catchment areas to emergency and psychiatric care could save \$260 million in 1985, and a total of \$1,565 million through 1989. Three-year savings (\$0.8 billion) are roughly one-third smaller than those estimated by the commission (\$1.2 billion), largely because of differing assumptions about the cost of the military workload increases caused by this proposal. The PPSSCC assumed that military hospitals and clinics could absorb the added workload without any additional cost. But these additional patients could increase DoD's overall inpatient workload by about 16 percent, and its outpatient workload by about 6 percent. The increases for hospitals and clinics in catchment areas with large populations might be substantially higher. An earlier study by DoD of comparable changes in medical care workloads assumed that each new patient would cost DoD at least one-half of its average cost for current patients. CBO used this relatively conservative assumption.

These savings could be lower if DoD permitted some CHAMPUS coverage when military facilities simply could not supply needed care. Even with extra funding, some smaller facilities would not be able to treat the occasional patient in need of extremely sophisticated therapeutic services.

Program Impact. CBO and GAO believe that this proposal could cause different reactions among military beneficiaries. On the one hand, some hold dear their ability to choose civilian over military care in certain instances. They would consider any proposal restricting their choice an erosion of benefits. On the other hand, some beneficiaries would welcome guaranteed use of military facilities for financial reasons. While under CHAMPUS they must share up to 25 percent of the costs of their care; in military facilities they would have to pay not more than $6.80 a day for hospital care and nothing for outpatient care. Beneficiaries would, however, welcome using military facilities only if the quality or timeliness of care was not compromised. But by adding to military workloads, such use could strain those hospitals and clinics already operating near capacity and cause bothersome waiting times.

Even facilities that appear to be underused over the course of a year could have problems absorbing CHAMPUS' entire nonpsychiatric and nonemergency workload. For one thing, the demand for medical care is much heavier at some times of year than at others; seemingly underused facilities could have trouble meeting surges in demand. More important, all military hospitals and clinics operate under a central assignment system for military personnel that causes staffing to fluctuate. Thus they cannot be certain that the specialists needed for a particular procedure will all be together at the same time. Moreover, the military hospital system overall may not always have the proper mix of physician specialties and support staff or enough adequate facilities and equipment to meet all the demands placed on it. Thus achieving savings under this option would risk some degradation of the quality and timeliness of health care.

Implementation. The Secretary of Defense could restrict CHAMPUS benefits to people living outside military catchment areas; the services could then only issue NACs for psychiatric and emergency care. DoD has already begun to restrict use of CHAMPUS by directing the military services to issue 5 percent fewer NACs in 1983 than they did in 1982. Each service decides how to distribute its quota of NACs among its hospitals.

References. PPSSCC, Task Force Report on the Office of the Secretary of Defense, pp. 247-53. GAO, New Claim Forms and Changes in Administrative Procedures May Increase Improper CHAMPUS Payments (HRD-81-75). GAO, Performance of CHAMPUS Fiscal Intermediaries Needs Improvements (HRD-81-38). GAO, Military Medicine Is in Trouble: Complete Reassessment Needed (HRD-79-107). GAO, Savings to CHAMPUS from Requirement to Use Uniformed Services Hospitals (HRD-79-24). GAO, Legislation Needed To Encourage Better Use of Federal Medical Resources and Remove Obstacles To Interagency Sharing (HRD-78-54).

RECOVER MILITARY MEDICAL CARE COSTS FROM PRIVATE HEALTH INSURERS (HOSP-11)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	245	260	280	300	320	1,405
Outlays	196	250	273	293	313	1,325

PPSSCC Proposal. Every year military hospitals admit over one-half million military retirees and dependents, at an average daily cost of $392, and military clinics treat over 27 million in outpatient visits, at an average cost per visit of $49. Generally the DoD does not collect these costs from private health insurers, although surveys show that many of these patients have private insurance, usually because a member of their family is insured through a civilian employer. The commission recommends that DoD collect from private health insurance companies the costs of treating their nonactive-duty policyholders in military hospitals and clinics.

Budgetary Impact. Reimbursement from private insurers could amount to about $245 million in 1985, and a total of $1,405 million through 1989. For the first three years, CBO estimates savings of $785 million. This is about $400 million less than the commission's estimate of $1.2 billion. Administering a collection program could offset these savings by no more than 20 percent, and possibly by much less. CBO savings for the first three years are about 30 percent smaller than the PPSSCC's estimated savings because of differing assumptions on two key points: the percent of nonactive-duty patients with coverage and the percent of costs that insurers would pay.

The commission used a short survey, with a small and possibly unrepresentative sample, to find that 23 percent of nonactive-duty patients have private coverage. By relying on a more comprehensive 1978 survey on the use of medical services, CBO assumed that only 15 percent of these patients have coverage.

The commission assumed that insurers would pay 80 percent of covered expenses for inpatients and outpatients, because many policies include coinsurance. But the PPSSCC overlooked the widespread inclusion of deductibles in insurance policies, which usually require patients to incur over $100 in expenses before being reimbursed. Moreover, policies generally do not cover some outpatient services, such as dental care. CBO assumed that because of these features insurers would only pay 40 percent of covered expenses for outpatients.

CBO's and GAO's estimates, while lower than those of the PPSSCC, may still overstate savings because of uncertainties about coverage. Today, the number of families with coverage provided by a civilian employer may be fewer than reported in the 1978 survey because of the subsequent rise in unemployment. And perhaps more important, some families with health insurance turn to military medical facilities only when they have already exhausted their policies' benefits. No data are available to determine the impact of these two factors.

Moreover, savings could be lower if insurers covered actual instead of average expenses. At present, DoD does not have data to determine what it costs to treat any single patient, let alone those who have private health insurance. Thus CBO assumed, as did the commission, that insurers would have to cover the overall, average costs of inpatient and outpatient care--as they now do in cases of negligence--even though any one patient's cost could be quite different. But DoD could in the future revise its accounting systems to record individuals' costs. In addition, savings could be still lower if the Congress excused companies from covering those parts of the average cost not related directly to caring for nonactive-duty patients--such as retirement pay, depreciation of fixed assets, and overall administration of medical care programs.

Program Impact. CBO and GAO agree that this change would probably cause insurance companies to raise their premiums for all policyholders. Insurance companies would generally not be able to single out military families for higher premiums, however, because most military retirees and dependents with coverage belong to plans that include many other civilians. The average increase nationwide in all policyholders' premiums should be small, especially in the near term. But insurers say they fear more rapid increases in the future because they cannot oversee how military facilities spend their policyholders' dollars.

Implementation. To achieve most of these savings, the Congress would have to pass legislation to prevent insurers from excluding the federal government from reimbursement; companies now typically include this restriction in their basic insurance contract. The Congress has already passed legislation allowing DoD to collect costs from insurers whose policyholders negligently injure a military beneficiary. Legislation supporting this approach is part of the DoD legislative package for fiscal year 1985. Even without legislation, though, DoD might realize some savings from insurance companies that do not have the exclusionary rule.

Unless the Congress requires insurers to cover overall, average costs--as they now do in negligence cases--DoD would also have to revise its cost accounting system to identify individual patient's actual expenses. Today these systems only report the overall costs of delivering services to all patients.

References. PPSSCC, Task Force Report on Federal Hospital Management, pp. 191-258. GAO, Possible Ways for the Veterans Administration to Seek Reimbursement from Insurance Companies for Hospital Care Furnished to Privately Insured Veterans (B-114859, Feb. 13, 1970). GAO, New Strategy Can Improve Process for Recovering Certain Medical Care Costs (HRD-77-132, Sept. 13, 1977). GAO, Cost Cutting Measures Possible if Public Health Service Hospital System Is Continued (HRD-81-62, June 10, 1981). GAO, Stronger VA and DoD Actions Needed to Recover Costs of Medical Services Provided to Persons with Work-Related Injuries or Illnesses (GAO/HRD-82-49, June 2, 1982). GAO, letter report to the Secretary of Defense (HRD-77-156, Sept. 29, 1977). GAO, Government Loses Revenue Because of Low Medical Care Charges to Liable Third Parties (AFMD-82-2, Dec. 16, 1981).

REMOVE RESTRICTIONS ON SILVER STOCKPILE SALES
(CONG-3-1)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	0	0	0	0	0	0
Outlays	40	40	40	40	40	200

PPSSCC Proposal. The commission proposes that the General Services Administration (GSA) seek legislation to sell 105.1 million troy ounces of the 139.5 million troy ounces of silver in the National Defense Stockpile. The 105.1 million troy ounces are deemed to be in excess of silver stockpile requirements.

Budgetary Impact. CBO and GAO estimate that selling the excess silver over an extended period of time would maximize government revenues. About 4 million troy ounces per year could be sold without significantly lowering the price, bringing in about $40 million annually, which would produce receipts leading to the outlay savings in the above table. These savings would be placed in the Stockpile Transaction Fund under current law. The Strategic Stockpile Fund is a revolving fund that receives no direct budget authority. The estimate assumes that the revenues from silver sales would not be appropriated to acquire other materials for the stockpile. If the acquisition plan is changed to purchase additional materials, however, the savings would be decreased by the amount of those purchases. The commission estimates that $1.04 billion would realized by selling the entire 105.1 million troy ounces in one year at $9.95 per troy ounce. The commission assumes that budgetary savings would be realized by either (1) depositing the proceeds from the sale in the general fund of the U.S. Treasury, or (2) using the proceeds to offset the costs of stockpile acquisitions that would otherwise be supported from new appropriations. Since neither assumption is feasible under current law and Congressional practice, CBO and GAO estimate no savings in budget authority. The proposal would generate receipts, however, so there would be an outlay savings.

In terms of the commission's first assumption, proceeds from the sale of stockpile materials cannot be deposited in the Treasury's general fund under existing legislation. The Strategic and Critical Materials Stockpiling Act, as amended, requires that all funds from the sale of stockpile materials be placed in a separate fund in the U.S. Treasury--the National Defense Stockpile Transaction Fund (50 U.S.C. 98h). The Transaction Fund can be used only to purchase needed stockpile materials.

Concerning the second assumption, the Congress has followed the practice of not appropriating new funds for stockpile acquisitions. Since the Transaction Fund was established in fiscal year 1979, the Congress has limited stockpile acquisitions to amounts that can be purchased within the fund's existing balance. Thus, the assumption that the Congress would appropriate new funds for stockpile acquisitions if the silver is not sold is inconsistent with current practice. The surplus (or unappropriated balance) in the fund at the end of fiscal year 1983 was sufficient to meet the fiscal year 1984 spending level approved by the Congress and additional sales receipts from excess stockpile materials, other than silver, are anticipated in fiscal year 1984.

Savings in budget authority would be realized only if legislation were enacted to allow the proceeds from the sale of stockpile silver to be deposited in the general fund of the Treasury and the Congress continues its practice of not appropriating any new funds for stockpile acquisitions. Such an assumption, however, could have national security implications. If the stockpile silver sale proceeds were deposited in the Treasury's general fund and no new funds were appropriated, funds to acquire needed strategic stockpile materials critical to national defense would be reduced by over $200 million.

Program Impact. If the stockpile silver were sold under existing legislation, the proceeds would be placed in the Transaction Fund and would be available to acquire other stockpile materials. Disposing of 105.1 million troy ounces in one year would, however, result in a short-term disruption of the usual silver market, including the possible collapse of U.S. silver market prices and drastically reduced sale proceeds for the federal government. The reason for this is that the present total annual world silver consumption is less than 400 million troy ounces and demand is growing slowly because principal silver purchasers have been turning to cheaper substitutes. While a large influx of silver into the market could cause some increase in consumption because of lower prices, a major increase is not expected because large industrial users are not likely to switch back to silver. CBO was unable to obtain an estimate of the level to which prices would have to fall to stimulate demand for silver significantly. Even at lower price levels, though, demand for silver would probably not rise quickly enough to forestall price declines if over 105 million troy ounces of silver were sold on the market in one year.

The PPSSCC estimates that $1.04 billion would be realized by selling the 105.1 million troy ounces of silver at $9.95 per troy ounce. As of January 30, 1984, however, the price was $8.35. Proceeds at this price would be $877 million, or $163 million less than the commission estimates.

Implementation. Existing legislation precludes disposing of 105.1 million troy ounces of stockpile silver. The fiscal year 1982 Defense Appropriation Act (Public Law 97-114) suspended the disposal of stockpiled silver pending (1) a Presidential redetermination as of July 1, 1982, that the silver to be disposed of is excess to stockpile requirements, and (2) Congressional approval of any proposed disposal method. In making the redetermination, the President is required to consider certain factors, including the findings and recommendations in GAO's January 1982 report, National Defense-Related Silver Needs Should be Reevaluated and Alternative Disposal Methods Explored. As of February 1984, this redetermination had not been made and, therefore, no silver can be sold.

If the silver is found to be excess to stockpile requirements, legislation also exists that limits the amount of silver that may be disposed of in any given year. First, the stockpiling act states that no disposal may be made from the stockpile if the disposal would result in a balance in the Transaction Fund of above $500 million. Second, the stockpiling act requires that efforts be made to avoid undue disruption of the usual silver market. To accomplish this, the Continuing Appropriations Act for Fiscal Year 1983 (Public Law 97-377) limited annual stockpile silver sales to no more than 10 percent of the silver produced from existing domestic mines in the preceding 12-month period. As domestic production is generally about 40 million troy ounces, this provision would allow annual sales of about 4 million troy ounces of stockpile silver. The commission proposal calls for legislative action to eliminate these restrictions.

Additional Comments. GAO believes that the existing legislative requirements constitute a well-defined, logical course of action to ensure that the silver is in excess of stockpile requirements before it is disposed of and, if found to be excess, is disposed of in such a manner as to minimize or eliminate any short-term market price disruption. GAO believes that the potentially adverse effect on national security and domestic silver producers should be considered in any decision to dispose of the stockpile silver.

References. PPSSCC, Report on Management Office Selected Issues, vol. VI, pp. 60-62, 117. GAO, National Defense-Related Silver Needs Should Be Reevaluated and Alternative Disposal Methods Explored (EMD-82-24, January 11, 1982).

REVISE DoD CONTRACT FINANCING PROCEDURES (ASSET-1)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	0	0	0	0	0	0
Outlays	1,300	4,200	500	0	200	6,200

PPSSCC Proposal. The commission recommends that DoD take three steps to improve major defense contract financing procedures:

- o Review contract pricing, profit, and financing policy and simplify the entire process;
- o Establish an integrated data base management system for acquisition policy analysis, using the latest technology and tools; and
- o Reduce cash progress payment rates on fixed-price contracts to February 1981 levels and establish the required contractor investment in work-in-process capital at 15 percent, rather than the current levels.

Currently, progress payments for completed work are 90 percent for large business concerns and 95 percent for small concerns, or flexible percentages of allowable costs (determined by a DoD cash flow model by which the rate may be as great as 100 percent but not less than the uniform standard percentages noted above). These payments assist in financing a contractor's performance and reduce the contractor's investment in work-in-process inventories. The payments are made at least once a month but can be more frequent subject to contract negotiations.

Reducing the level of progress payments would reverse action taken in 1981 in response to concern expressed by the defense industry that many of the DoD procurement practices (including progress payments) were not compatable with the (then) current economic environment and did not reflect the extremely adverse impact of inflation. DoD increased progress payments to reduce contractors' investment in working capital and to improve contractors' earnings and ability to reinvest. The commission concludes that these revisions to progress payments did not achieve the desired effect and should be rescinded.

Budgetary Impact. CBO estimates that the commission's proposal to slow progress payments to contractors will save $6.2 billion in outlays from 1985 to 1989. There is no projected impact on budget authority since the proposal addresses only the timing of payments to contractors. The changes in progress payments would only apply to future contracts. Progress payments under existing contracts would be unaffected. CBO and GAO note that real profit rates earned by contractors are affected by things like the progress payment rate and unallowable costs, including interest expense. The recommended action would remove something of value (a more positive cash flow) from defense contractors. Depending on many factors, contractors would probably react by charging higher prices or changing other terms and conditions to compensate for their loss. Because the outcome of all these factors cannot be predicted, it is not possible to estimate their impact on the PPSSCC proposals.

The commission estimates savings of $1.7 billion based on an assumed reduction in debt incurred by the government to finance firm-fixed-price contracts at the higher progress payment rates. In addition, the PPSSCC claims that lower progress payments would save $9.4 billion over three years in direct outlays. This reduction would ultimately be completely offset, however, as each contract is completed and fully paid.

Program Impact. The major effect of this recommendation would be to slow the flow of cash payments from the government to defense contractors. The commission assumed that the total cost over the life of the contracts would be unchanged. Given the slowing of payments, however, defense contractor profits would be reduced by the added cost of financing a greater portion of the contract. Therefore negotiated profit and/or fee rates may increase and offset some or all of the estimated savings.

Implementation. A revision of payment rates can be accomplished by Executive Branch action.

Additional Comments. GAO believes that no action on the recommendation to reduce progress payment rates should be taken until the issue is thoroughly examined.

The PPSSCC is concerned that DoD contract financing provisions, as reflected in the current progress payment rate structure, are too generous. By combining the two changes to progress payments that have taken place since 1981, the PPSSCC does not address the validity of DoD's decision to make the second of the two changes. Further, in recommending the scaling back to February 1981 rates, the commission suggests changing the procurement system without considering the full impact.

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GAO does not believe that the savings estimated are realistic. This assessment is based on the strong belief that contractors will frequently demand and receive terms of value commensurate with the privilege they are surrendering (progress payments). Accordingly, if the recommendation was implemented, GAO doubts that savings of the magnitude cited could be achieved.

References. PPSSCC, Task Force on Financial Asset Management, pp. 12-19; GAO, Defense Industry Profit Study (B-159896, March 17, 1971). GAO, letter report to Secretary of Defense (PSAD 77-55, February 17, 1977). GAO, Report to the Congress (PSAD 79-83, March 8, 1979). Comptroller General Speech to NCMA (September 21, 1983). Comptroller General Speech to NSIA (October 13, 1983). Comptroller General letter to Secretary of Defense (October 22, 1983).

INCREASE USE OF MULTIYEAR PROCUREMENT
(USAF-19, NAVY-2, PROC-4)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The PPSSCC recommendations are not sufficiently specific for a budgetary impact estimate.					
Outlays						

PPSSCC Proposals. The commission proposes that DoD should increase its use of multiyear procurement (MYP) contracts for major weapons systems purchases. MYP refers to any contract that is used to purchase goods or obligate the government for more than a single year's requirements of goods or services. The commission did not identify any specific weapons systems to be considered for this approach.

Budgetary Impact. MYP is already part of current DoD policy and DoD has identified actual and projected MYP savings of $4.5 billion for the 1981-1988 period. These savings are reflected in the CBO baseline. The further application of MYP might produce additional savings, but CBO cannot identify additional weapons systems for application of MYP, nor did the commission identify any such systems. This information is needed to estimate savings, because MYP does not always produce savings and, in fact, MYP is undesirable for programs characterized by uncertainty about the final design configuration or uncertainty about the total number of required weapons.

The PPSSCC recommended MYP in four proposals and claimed a total three-year savings of $13.3 billion. After eliminating $6.1 billion because of double counting, the total commission savings should be no more than $7.2 billion. The commission's savings estimate was obtained by applying a general percentage (7.5 percent) to the DoD procurement budget. The use of this percentage was not justified in the PPSSCC report.

Program Impact. In some cases MYP contracts may reduce the total cost of specific military goods or services. The first-year cost is normally higher under a MYP contract than under an annual contract, because of greater costs in case of early contract termination and increased advance purchases of items with long lead times. Costs for subsequent years, however, would be lower. The private sector generally benefits from MYP because of reduced uncertainty about future years' production, better utilization of production facilities, and reduced administrative burden of negotiating annual contracts.

Not all procurement programs are suitable for MYP. In some cases, the total program savings are not large enough to justify the higher first-year cost or the design configuration is not stable enough for the government to make a long-term commitment or risk a substantial financial penalty for early termination of the contract.

Implementation. The use of MYP is now a regular part of DoD's contracting process. The DoD has had MYP authority for weapons systems since the 1960s. DoD is now required to notify Congressional committees before awarding a MYP weapons system contract that contains a cancellation ceiling in excess of $100 million. The Administration's 1983 and 1984 budgets requested approval of MYP for several major weapons systems and the Congress approved some of these. DoD included requests for MYP in the fiscal year 1983 and 1984 budgets, and many of these requests have been approved by the Congress.

Additional Comments. GAO has supported the MYP initiative in both the defense and the civilian sectors. The commission, however, provides no basis to support its recommendation that Defense Department MYP authority needs to be enhanced. In fact, recent GAO studies on defense major weapons system acquisitions suggest that the MYP pace is too fast, and its benefits substantially less than projected. GAO has made selected studies on major weapons system items, which demonstrate that under appropriate circumstances, MYP can produce budgetary savings. None of these studies, however, identified savings of the magnitude of the PPSSCC study.

References. PPSSCC, Task Force Report on the Office of the Secretary of Defense, pp. 198-208. Task Force Report on the Department of the Air Force, pp. 163-77. Task Force Report on the Department of the Navy, pp. 72-76. Task Force Report on Procurement/Contracts/Inventory Management, pp. 25-28. GAO, Update to GAO Analysis of Defense's Fiscal Year 1983 Multi-year Candidates and the Prospective Fiscal Year 1984 Multi-year Candidate B-1 Bomber (B-206570, September 13, 1982). GAO, Testimony by Robert M. Gilroy before the Subcommittee on Defense, House Appropriations Committee (July 27, 1982). GAO, Testimony by Robert M. Gilroy before the Subcommittee on Defense, House Appropriations Committee (June 9, 1983). GAO, Analysis of the Department of Defense's Request for Multi-year Contract Authority for the B-1B Weapon System (PLRD-83-86, June 16, 1983). GAO, Analysis of Multi-year Procurement Candidates

Included in Defense's Fiscal Year 1984 Budget Request (NSIAD-83-70, September 30, 1983). GAO letter report, "Biennial Budgeting, The State Examples--Summary of the Major Issues" (PAD-83-14, December 23, 1982). GAO, "Perspectives on Budgeting for State and Local Needs and Biennial Budgeting," testimony of Charles A. Bowsher, Comptroller General of the United States before the Senate Committee on Governmental Affairs (May 5, 1983). GAO, Comments on H.R. 750, to the Chairman, House Committee on Government Operations (17CCPAD83, September 21, 1983). GAO, Federal Agencies Should Be Given General Multi-Year Contract Authority for Supplies and Services (PSAD-78-54, January 10, 1978).

ESTABLISH AND MAINTAIN EFFICIENT WEAPONS' PRODUCTION RATES (OSD-21,23, NAVY-1, ARMY-11)

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
Budget Authority	The PPSSCC recommendations are not sufficiently specific for a budgetary impact estimate.					
Outlays						

PPSSCC Proposals. The rates at which weapons are produced often affects their costs. The commission makes several recommendations to improve the production rates of the individual weapons purchased each year by DoD and to ameliorate the problems associated with altering planned purchases from year to year. The thrust of these proposals is to sustain high annual production levels for weapons systems. Production at or near the "economic" production level minimizes total production costs over the life of the acquisition program. Inefficient production rates result in higher unit costs, reducing DoD's purchasing power. The commission proposes the following improvements:

- o Affordability of New Starts. DoD should ensure that the proposed rate of weapons production is affordable before production begins. The weapons in production at any one time should be restricted to those that can be afforded at production levels that ensure the lowest cost.

- o Management Reserve Fund. DoD should create a management reserve fund to meet financial emergencies and prevent production slowdowns (stretchouts) that raise costs.

- o Two-Year Budget. DoD should establish a two-year budget cycle for major weapons systems to help prevent annual changes in production plans.

- o Planning, Programming and Budgeting System (PPBS). DoD should stabilize its PPBS by issuing firm budgetary guidance at the outset of the annual budget cycle and by integrating the program and budgeting phases of the cycle.

- o Selected Acquisition Report (SAR). In its SARs, DoD should present the best cost estimate for the entire weapons acquisition cycle, and provide key financial data for the affordability analyses suggested above. It should also provide estimates that identify separately the effects of inflation and quantity changes on weapons costs and establish a new baseline when a system undergoes a major change in its design.

- o Audit Trail. DoD should establish an auditable trail from each SAR baseline cost estimate that would incorporate cost estimates into budget projections and calculations of unit cost growth.

- o Reprogram Funds. DoD should allow greater reprogramming of appropriated funds from low- to high-priority projects in order to ensure funding of essential procurement programs.

- o Stretchouts. DoD should analyze the effects of stretchouts on cost growth for each major system in order to establish procurement priorities.

Budgetary Impact. The PPSSCC estimates annual savings of \$18.3 billion for the first three years after implementation of these proposals. These savings assume procurement cost reductions of 2 percent to 10 percent without addressing which programs would be involved. Although it is not entirely clear, many of the proposals appear to duplicate each other or overlap (that is, DoD-wide savings estimates include Army and Navy estimates). Thus, commission estimates may be overstated even if one accepts commission assumptions.

If the PPSSCC is proposing only to avoid future decisions to stretch out weapons programs, then the PPSSCC proposal only avoids potential future cost growth that is not in the current CBO baseline and, therefore, CBO cannot predict savings resulting from these proposals. Over the long term, if these proposals were applied to new systems now in development, DoD might avoid cost growth above the current baseline. In addition, DoD's current budget plans already project cost avoidance in fiscal year 1984 of \$625 million from application of economic production rates to 19 systems, and \$1.62 billion from cancellation of 125 marginal or obsolete programs. This is a result of DoD's ongoing attempt to improve the acquisition process.

If the current production plans of the administration were adjusted to the economic production level for all systems, there would be a very substantial increase in production levels for at least three years, yielding higher annual costs for fiscal years 1985-1987. Moreover, it is not always practical to produce all weapons systems at the most economical production rate because of the limited size of the defense budget. In addition, extending production schedules helps to maintain a production base for wartime mobilization. Moreover, trade-offs must be made concerning the efficient production of systems critical to current defense needs and limited production of others with significant potential in future years. The value of economic production levels for each weapons system is that they allow decisionmakers in the Congress and DoD to be aware of what the economic impacts are when they increase or decrease program funding.

Establishing a new management reserve fund for weapons systems would also increase projected total program costs, and could be a disincentive for efficient management of procurement programs. As described by the commission, this reserve could increase total weapons system costs by 5 to 10 percent.

Program Impact. CBO and GAO believe that implementation of the proposals might lead to more efficient production rates and lower total costs for major weapons systems over the longer term. DoD has already implemented a program to promote economic production rates, however. While its approach is different from the commission's, the effects of the current program would reduce the savings from adding another program with the same goal.

Implementation. Five of the eight recommendations outlined above could be implemented by DoD action alone. The management reserve fund, reprogramming, and the two-year budget would require approval by the Office of Management and Budget and the Congress. The DoD Acquisition Improvement Program includes "Economic Production Rates," which is similar to the proposal on affordability and is already part of the budget.

Additional Comments. A multiyear funding cycle might well be a component of a redesigned financial management system for programs in which stability and predictability are particularly important. While GAO supports efforts to improve planning and budgeting for major weapons systems, it believes the problems go well beyond the question of biennial budgeting. Changes are needed in the entire financial management system of the federal government to bring the workload associated with the annual process within manageable proportions. These improvements would reduce the need to shift to a biennial budget across the board. GAO believes the results would be disappointing if biennial budgeting were adopted without the needed improvements.

GAO does not believe that DoD should establish a new baseline estimate in the SARs in the event that a system undergoes major changes. Updating the baseline estimate would eliminate the development estimate that originally supported the production decision and also eliminate the cost track between the SAR's development and current estimates. GAO stresses that DoD should maintain a clear cost track when weapons systems undergo major reconfigurations and is concerned about the trend toward making updated baseline line estimates the same as budget numbers. GAO recommends that DoD (1) provide a detailed baseline cost estimate based on actual cost experience and tied to a clearly defined work breakdown structure to support the production decision; (2) fully document all estimates and maintain documentation in a clear, traceable form; and (3) use the detailed baseline estimate to formulate succeeding budget projections. Thus, the original development estimate that supported the production decision can be used thereafter as a basis for identifying and analyzing areas of cost growth.

References. PPSSCC, Task Force Report on Procurement/Contracts/Inventory Management, pp. 29-35. PPSSCC, Task Force Report on the Office of the Secretary of Defense, pp. 178-18 and 198-208. PPSSCC, Task Force Report on the Department of the Army, pp. 88-94. DoD, Office of the Secretary, Economies and Efficiencies Fiscal Year 1984 (March 1983). GAO, The Defense Budget: A Look at Budgetary Resources, Accomplishments, and Problems (PLRD-83-62, April 27, 1983). GAO, Defense Budget Increases: How Well Are They Planned and Spent? (PLRD-82-62, April 13, 1982). GAO, Impediments to Reducing the Costs of Weapon Systems (PSAD-80-6, November 8, 1979). GAO, Review of the Department of Defense's Implementation of Procurement Reforms (PSAD-79-106, September 25, 1979). GAO, Analysis of Multi-year Procurement Candidates Included in Defense's Fiscal Year 1984 Budget Request (NSIAD-83-70, September 30, 1983). GAO, Testimony by Walton Sheley, Jr., Before the Senate Committee on Governmental Affairs (March 23, 1983). GAO, Acquisition of Major Weapon Systems (B-163058, March 18, 1971). GAO, Acquisition of Major Weapon Systems (B-163058, July 17, 1972). GAO, Cost Growth in Major Weapon Systems, (B-163058, March 26, 1973). GAO, Budget Pressures Created by the Army's Plans to Procure New Major Weapons Systems Are Just Beginning (MASAD-82-5, October 20, 1981). GAO letter report, Biennial Budgeting, The State Examples--Summary of the Major Issues (PAD-83-14, December 23, 1982). GAO, Biennial testimony of Charles A. Bowsher, before the Senate Committee on Governmental Affairs (May 5, 1983). GAO, Comments on H.R. 750 (17CCPAD83). GAO, Theory and Practice of Cost Estimating for Major Acquisitions (B-163058, July 24, 1972). GAO, Issues Concerning Air Force KC-10A Advanced Tanker/Cargo Aircraft (PSAD-79-8, January 5, 1979). GAO, Implications of Highly

Sophisticated Weapon Systems on Military Capabilities (PSAD-80-61, June 30, 1980). GAO, Integrated Approach to U.S. Air Defense of Central Europe Should Result in More Effective Mission (C-MASAD-81-18). GAO, Defense Spending and Its Relationship to the Federal Budget (PLRD-83-80, June 9, 1983, Revised). GAO, SARs - Defense Department Reports That Should Provide More Information to the Congress (PSAD-80-37, May 9, 1980). GAO, Consistent and Uniform Treatment of Inflation Needed in Program Cost Estimates Provided to the Congress (PSAD-78-8, March 20, 1978). GAO, How to Improve the Selected Acquisition Reporting System (PSAD-75-63, March 27, 1975). GAO, A Range of Cost Measuring Risk and Uncertainty in Major Programs--An Aid to Decisionmaking (PSAD-78-12, February 2, 1978).

INCREASE USE OF COMMON PARTS AND STANDARDS (OSD-20)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The budgetary impact of the PPSSCC recommendations cannot be estimated with available information.					
Outlays						

PPSSCC Proposal. The commission proposes that DoD increase its use of common parts and equipment to reduce the costs of major weapons systems. In addition, the PPSSCC recommends greater use of parts and equipment designed to meet commerical standards, rather than solely military standards and specifications (MILSPECS). Ten specific recommendations are made to change procurement procedures and to provide funds for developing MILSPECS in conjunction with military construction.

Budgetary Impact. CBO cannot estimate the savings from this proposal because it is not possible to predict the extent to which the PPSSCC proposals will further the use of common parts and standards. The budgetary impact of some of these proposals is, however, already partially reflected in DoD's budget and in the CBO baseline. The use of common parts and commercial standards, when feasible, is an established part of DoD policy. In fact, the 53rd annual DoD report to the Congress (entitled Defense Standardization and Specification Program) claims $25.1 million in savings from such a program for 1982. The DoD has not yet identified the savings from these actions assumed in its 1983 and 1984 appropriations.

The commission's estimated savings of $7.3 billion over three years assumes a 4.8 percent across-the-board reduction in all weapon systems costs, offset by annual implementation costs of approximately $100 million. Neither the PPSSCC report nor the PPSSCC staff has provided data with which to assess the validity of the PPSSCC assertion that the 4.8 percent reduction is possible. Further, data from other sources are also inadequate for such an assessment.

Program Impact. Decreased use of MILSPECS might encourage more firms to bid on defense contracts because, among other things, less specialized tooling would be required to produce defense materials. This would widen the defense industrial base and might increase competition among contractors. DoD believes, however, that further use of commercial parts and standards might decrease military readiness. In DoD's view, MILSPECS promote standardized quality for parts and components, encourage emerging technologies, and ensure that each new weapon will meet the perceived threat for which it was designed.

Implementation. The PPSSCC proposals could be implemented by the Secretary of Defense within existing authority. A program addressing the same issue was included in the DoD's Acquisition Improvement Program (AIP) of 1981 (the so-called Carlucci Initiatives). This program emphasizes the role of the services in identifying candidate programs for common parts and standard operational systems early in the acquisition process. But DoD admits that the standardization process is moving slowly and that additional funding is needed to develop candidates and strategies for common parts and standards. These could be added to the AIP through action by the Secretary of Defense.

A 1970 report by the House Committee on Government Operations (H.R. Rep. 91-1718) suggested that incentives be developed to encourage contractors to use standard commercial items. GAO, in March 1979, reported that DoD's parts control programs were mandated for use on all major weapons systems acquisition programs. However, application of the program was left out of many design and development contracts or tailored to the point that few standardization benefits were derived.

Additional Comments. GAO has recommended that DoD explore various incentive programs that could lead to greater parts standardization in government weapons systems and related equipment. As GAO has reported previously, DoD has yet to tap the full potential for common or standardized components and subsystems. DoD agrees that more should be done, and it has attempted to increase commonality of components. For example, the Rand Corporation found that commonality existed in varying degrees in several variants of the cruise missile--15 percent in airframes, 75 percent in guidance components, 85 percent in engines, and 100 percent in radar altimeters. Notwithstanding these successes, DoD could do much more. Its implementation of another PPSSCC recommendation--to provide seed money to initiate joint-service development of military hardware--could greatly enhance commonality of components and subsystems.

GAO has not recommended that DoD provide seed money for joint-service hardware and software development. It has, however, recommended that the Secretary of Defense stress the need for program managers and contractors to give more consideration to standardization during the early design and development stages of weapons systems. GAO supports the PPSSCC recommendation and feels it complements past GAO work.

References. PPSSCC, Task Force on the Office of the Secretary of Defense, pp. 171-77. DoD, Office of the Deputy Secretary of Defense, Memoranda on Improving the Acquisition Process, April 30, 1981, and June 8, 1983. GAO, Joint Major System Acquisition by the Military Services: An Elusive Strategy (NSIAD-84-22, December 23, 1983). GAO, Increased Standardization Would Reduce Costs of Ground Support Equipment for Military Aircraft (LCD-80-30, February 7, 1980). GAO, Fragmented Management Delays Centralized Federal Cataloging and Standardization of 5 Million Supply Items (LCD-79-403, March 15, 1979). GAO, Management of the Development and Procurement of Airborne Electronics Equipment (Avionics) by the DOD (PSAD-78-105. B-1630a58, May 12, 1978). GAO, How the Item Reduction Program of the General Services Administration Could Be More Effective (LCD-76-459, July 11, 1977).

INCREASE DUAL-SOURCING OF WEAPONS PROGRAMS (NAVY-3, USAF-20)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The PPSSCC recommendations are not sufficiently specific for a budgetary impact estimate.					
Outlays						

PPSSCC Proposals. The commission makes a number of recommendations designed to encourage the use of dual-sourcing to procure weapons systems. Dual-sourcing is a procurement strategy whereby production is divided among two or more producers to create competition and thereby reduce total costs. Usually this division is a function of contractor prices. The incentive for price competition may also be created by awarding a higher percentage of profit to the low-price supplier. Dual-sourcing can be truly cost-effective, however, only when the product price reduction exceeds the total of all federal recurring and nonrecurring costs for establishing and maintaining the additional sources.

Specific commission recommendations are: develop a formal methodology for evaluating and identifying dual-source candidates; evaluate all current and future procurement programs for their suitability to dual-sourcing; and, when dual-sourcing is cost effective, provide "up front" funding and revise appropriate regulations to permit and encourage dual-sourcing routinely. The commission, however, does not recommend any specific weapons systems or other programs for dual-sourcing.

Budgetary Impact. For certain types of procurement, dual-sourcing might reduce total procurement costs. DoD currently employs dual-sourcing on some programs, but there is insufficient data on actual results to enable a properly informed conclusion on savings potential. While dual-sourcing of major weapons systems might potentially save money, its cost effectiveness is particularly questionable if production quantities and rates of production are small, or the weapons program is highly complex, or the production program has only a short time for completion. The thrust of the commission's recommendations is to require DoD to identify more dual-sourcing candidates in a systematic way. The commission, however, does not identify any specific systems for dual-sourcing. Because the outcome of these efforts to encourage further dual-sourcing cannot be predicted, it is not possible to estimate the budgetary impact of the PPSSCC proposals.

In any event, if there were an increase in dual-sourcing in 1985 above the level already planned by DoD, then 1985 budget authority and 1985 and 1986 outlays would increase. Added first-year costs for dual-sourcing include a second set of manufacturing tooling, qualification of the second source, and start-up of the production line. On occasion, new plant facilities and equipment are also needed. Savings, if any, would appear after 1985. Presumably dual-sourcing would only be applied if total program costs would be substantially reduced, but the development of clear, official, uniform DoD guidance and analytical methodology for price-competitive dual-sourcing is essential to the realization of a net program cost reduction.

The PPSSCC found insufficient data on the actual results of past dual-source procurement to permit a historical analysis of dual-source savings. The commission also found that contracting experts disagree on the amount of savings and the criteria to be used to measure the savings afforded by dual sourcing. Consequently, the PPSSCC's three-year savings estimate of $3.4 billion is based on applying general percentages to the planned Air Force and Navy budgets. These percentages are based on assumptions that savings would result, but the PPSSCC report provides no justification for the amount.

Program Impact. Although dual-sourcing might save money over the total production period, it would require additional funding in the near term. In addition, reduced annual levels of production for each of two producers might drive up unit production costs compared to the costs of a single producer with a higher production level. There also might be an increase in DoD managerial and administrative overhead and other costs required to qualify, oversee, and maintain the second-source producers. Dividing production among two producers when one now suffices might result in layoffs at the plant of the current sole producer.

Implementation. DoD could implement the commission's recommendations for developing a formal methodology for evaluating dual-source candidates and performing such an evaluation. Authorization for dual-sourcing solely or primarily as a production cost reduction strategy is unclear, however. Full implementation of the commission's recommendations apparently presumes that the Armed Services Procurement Act (ASPA) would be amended to authorize the negotiation of contracts solely or primarily for the purpose of price competition and cost reduction.

Legislation introduced in recent Congressional sessions to implement dual-sourcing. The Senate passed bill S. 338 in the first session of the 98th Congress. This bill amended federal procurement statutes to enable both defense and civil agencies to employ dual-sourcing in the procurement of property and services, if the head of an agency determines that doing so would increase or maintain competition and would probably result in reduced overall costs. House bill H.R. 2545, also introduced in the first session of the 98th Congress, contained essentially the same provision as S. 338 to enable the use of dual-sourcing for cost reduction, but applied only to DoD, the Coast Guard, and NASA. S. 2695, introduced in the second session of the 97th Congress, contained provisions requiring that each executive agency develop a detailed statement of its dual-sourcing policy and provide analytical methodology to guide the use of dual-sourcing. The bill also required various annual competitive and noncompetitive procurement reports including reports on the dual-source procurements an agency makes or intends to make each year. None of this legislation was passed by the entire Congress before adjournment. To the knowledge of CBO and GAO, the commission's recommended action has not been contained in other introduced legislation.

Additional Comments. GAO's ongoing work shows that dual-sourcing's cost reduction effectiveness needs to be better demonstrated before statutory amendment.

References. PPSSCC, Task Force Report on the Department of the Navy, pp. 77-83. PPSSCC, Task Force Report on the Department of the Air Force, pp. 78-187. GAO, Transmittal Letter and Statement of Fact on the USAF's IR Maverick Program from the Director, GAO Institute for Program Evaluation, to Senator David Pryor (May 4, 1983). GAO, Analysis of HARM Procurement Strategies (NSIAD-83-59, September 12, 1983). GAO, unnumbered NSIAD-Navy draft report on dual-sourcing (Code 942132, October 1983).

IMPROVE ARMY WEAPONS SYSTEMS ACQUISITION (ARMY-10)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The PPSSCC recommendations are not sufficiently specific for a budgetary impact estimate.					
Outlays						

PPSSCC Proposals. The commission makes seven recommendations to improve the Army's management of the acquisition of major weapons systems. The proposals are summarized as follows:

- o Acquisition Strategy. The Army should adopt Draft Regulation AR 70-1, "Army Systems Acquisition Policy." AR 70-1 is designed to emphasize near-term planning within the context of the entire acquisition cycle including early development of an acquisition strategy and minimization of documentation requirements.

- o Selected Acquisition Report (SAR). The Army should revise SAR reporting to preclude unrealistic baseline, or initial, estimates. SAR cost variance categories should also be revised to reflect the causes of cost changes and to differentiate between cost changes resulting from decisions internal or external to the Army and DoD.

- o Program Manager. The Army should recruit program managers and their staffs from Army ranks, Army laboratories, other services, and industry as early as possible in the acquisition cycle.

- o Army Material and Readiness Command (DARCOM). DARCOM and the design contractors should allocate 5 to 10 percent of the positions on a design team to persons specializing in the start-up of new systems. DARCOM should also include the difficulty of producing proposed designs in measuring of a program manager's performance and should separate the procurement and production functions into separate directorates.

Budgetary Impact. While CBO and GAO believe that improving the Army procurement management process could lead to some savings in the future, these proposals are too general to estimate savings. Procedural changes, such as those outlined here, do not have entirely predictable effects. Furthermore, CBO and GAO were unable to weigh the benefits of separating procurement and production within the Army. This would call for a major reorganization, with much attendant disruption, but the commission has not provided the necessary evidence that the benefits would outweigh the problems caused.

The commission estimates the savings to be $2.6 billion over three years, after full implementation of the proposals. This savings estimate is based on the assumption that there will be substantial future cost growth for major weapons systems. This projection reflects cost growth above that in the CBO baseline and the DoD budget. Thus, even if the commission's estimates are correct, there would be no savings compared to the baseline.

The level of cost growth is based on historical data and assumes DoD has taken no action to reduce the rate of unanticipated cost growth. Recent CBO analysis has shown that DoD has substantially reduced the rate of the unanticipated cost growth for weapons included in last year's Selected Acquisition Reports compared to the previous five years.

It is most signficant that 72 percent of the savings projected by the commission are actually achieved by a reduction in the scope of programs--buying less than planned--not by efficiencies. The PPSSCC did not identify which Army weapons systems it proposes to eliminate.

Program Impact. The commission's proposals might have some effect on the efficiency of weapons systems production. The proposed reduction of $1.6 billion in Army procurement programs could have an unfavorable impact on Army modernization and readiness, however. The production level changes could raise unit costs.

Implementation. The Army could adopt these recommendations under its own authority. DoD's Acquisition Improvement Plan (AIP) already includes several proposals similar to those outlined above. According to a memorandum from the Deputy Secretary of Defense dated June 8, 1983, proposals concerning program manager performance and monitoring of cost growth either have been, or are, in the process of being implemented. In addition, the recommendation dealing with AR 70-1 has already been implemented by the Army. The suggestion that DARCOM should separate Army procurement and production functions into separate directories is not under consideration by DoD. The SARs already include the recommended changes in cost categories. Eliminating the baseline estimates in the SAR could limit the Congress' ability to oversee cost growth.

References. PPSSCC, Task Force Report on the Department of the Army, pp. 75-87. DoD, Office of the Deputy Secretary, "Guidance on the Acquisition Improvement Program," memorandum (June 8, 1983). CBO, A Review of the Department of Defense December 32, 1982, Selected Acquisition Reports (SARs), Special Study (August 1983).

IMPROVE PROCUREMENT PROCESS MANAGEMENT
(PROC-6,7,8,9)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The PPSSCC recommendations are not sufficiently specific for a budgetary impact estimate.					
Outlays						

PPSSCC Proposals. To improve major weapon systems procurement, the commission makes a series of recommendations for planning, contracting, cost estimating, and managing DoD's procurement process:

- o Develop comprehensive and detailed acquisition plans.

- o Select contractors based on the lowest total cost and strengthen monitoring of subcontractors' estimates.

- o Strengthen procurement costs and scheduling by producing "most likely" estimates and improving reporting to provide early indications of cost growth and other problems.

- o Enhance program manager performance by increasing their authority, strengthening their support, and upgrading the quality of personnel assigned to Program Management Offices.

Budgetary Impact. Savings could possibly result from procurement management improvements, but CBO cannot estimate savings for these proposals because the degree of management cooperation cannot be predicted and the success of such changes cannot be estimated. Moreover, similar proposals have already been implemented by the Office of the Secretary of Defense and these savings are reflected in the CBO baseline.

The PPSSCC savings estimate of $7.8 billion was based on the assumption that these actions would reduce costs for all major procurement programs by approximately 7 percent. No basis was provided for these assumptions. These savings are phased in over a three-year period.

Program Impact. Program impact is difficult to assess because of the uncertainty surrounding the success of these initiatives and because some of the proposals are already being used.

Implementation. DoD is already using all but two of these proposals. The "Budget to 'Most Likely' Cost" and "Improved Source Selection Process" improvements are now being implemented, but further action is required on all levels, according to a June 8, 1983, memorandum by the Deputy Secretary of Defense. Similar recommendations addressing the same set of issues are already being implemented through procedural changes within the Office of the Secretary of Defense and the services through the Department of Defense Acquisition Improvement Program (AIP).

Additional Comments. GAO agrees with the commission that improvements are needed in DoD's weapons acquisition planning process. Although DoD has the authority to improve this, GAO found that the Office of the Secretary of Defense has not yet published criteria for development of system acquisition strategies. GAO believes the Secretary of Defense should define its acquisition strategy and emphasize its purpose so that the most effective management principles can be applied to the procurement of major weapons systems. In addition, GAO believes that a better definition of DoD missions and the services' roles is needed to ensure that weapons procurement serve DoD's highest priority needs.

The issue of effective program management is a vital one and the related recommendations have much merit. GAO has performed considerable work in the broad area of the effectiveness of the weapons system acquisition process in the 1970s. It agrees with the PPSSCC recommendations to strengthen the authority of program managers and increase their abilities to use technically trained staff both in-house or outside DoD to strengthen their analyses and program management capabilities.

References. PPSSCC, Task Force on Procurement pp. 36-69. GAO, Observations on Office of Management and Budget Circular A-109--Major System Acquisitions by the Department of Defense (PSAD-79-9, February 20, 1979). GAO, Better Planning and Management of Threat Simulators and Aerial Targets Is Crucial to Effective Weapon Systems Performance (NSIAD-83-27, June 23, 1983). GAO, Weapon Systems Overview: A Summary of Recent GAO Reports, Observations and Recommendations on Major Weapon Systems (NSIAD-83-7, September 30, 1983). GAO Joint Major System Acquisition by the Military Services: An Elusive Strategy (NSIAD-84-22, December 23, 1983). GAO, Recommendations to Improve Defense Reporting on Weapon Systems (MASAD-81-7, March 2, 1981). GAO, "SARs"--Defense Department Reports That Should Provide More Information to the Congress (PSAD-80-37, May 9, 1980). GAO, Impediments to Reducing the Costs of Weapon Systems (PSAD-80-6, November 8, 1979), GAO. Review of the Department of Defense's Implementation of Procurement Reforms (PSAD-79-106, September 25, 1979). GAO, Consistent and Uniform Treatment of Inflation Needed in Program Cost Estimates Provided to the Congress (PSAD-78-8, March 20, 1978).

ESTABLISH A PROCUREMENT AUDIT SERVICE FOR WEAPONS ACQUISITION (OSD-37)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The budgetary impact of the PPSSCC recommendations cannot be estimated with available information.					
Outlays						

PPSSCC Proposals. The commission recommends that DoD establish a procurement audit service (PAS) to perform internal reviews of DoD acquisition practices. The PAS, which would report to the DoD Inspector General (IG), would examine internal control procedures for procurement, research, development, testing, and evaluation. The PAS would also review the quality, accuracy, and scope of the work performed by the Defense Contract Audit Agency (DCAA). DCAA audits entities outside DoD--contractors and vendors of goods and services for government use or consumption--rather than internal DoD practices.

Budgetary Impact. CBO and GAO agree that increased audit attention could lead to acquisition improvements and savings to the government. There is, however, no valid method to estimate or identify what impact this increased effort would have on costs now or in the future.

The commission's savings estimate is based on an assumption that increasing audits of procurement activities would yield annual cost avoidances and efficiency improvements of $500 million or more each year for savings of $1.6 billion in the first three years after implementation.

Program Impact. None

Implementation. No further action is needed because the Congress and the DoD have already taken action to improve substantially the quality and quantity of procurement audits. The Congress recognized the need for increased procurement audit emphasis within DoD in the 1983 Department of Defense Authorization Act (P.L. 97-252). Specifically, the act established the DoD Inspector General, and transferred the Defense Audit Service (DAS) and the Defense Logistics Agency's Office of the Inspector General to the new DoD IG. The act also transferred the Defense Investigative Service to the IG's office, and authorized the transfer of 100 additional audit positions from other DoD sections to the IG to audit procurement activities. As of January 1, 1984, the IG had a total of 161 authorized audit positions to review major acquisition programs, contract audit programs, and acquisition support programs.

References. PPSSCC, Task Force Report on the Office of the Secretary of Defense, pp. 316-21. GAO, Department of Defense Progress in Resolving Contract Audits (AFMD-84-4, October 27, 1983). GAO, More Effective Use of Audit Reports Needed to Reduce Contract Costs (NSIAD-83-54, October 11, 1983). GAO, Budget Implementation of Savings Reported in the Third Summary Report Issued by the President's Council on Integrity and Efficiency (AFMD-83-14, October 18, 1982). GAO, Who Is Watching the Defense Dollars? (AFMD-82-26, February 5, 1982). GAO, The Effectiveness of the Defense Contract Agency Can Be Improved (FGMSD-79-25, May 10, 1979).

MODERNIZE CONTRACTORS' FACILITIES AND ENHANCE PRODUCTIVITY (NAVY-4)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The PPSSCC recommendations are not sufficiently specific for a budgetary impact estimate.					
Outlays						

PPSSCC Proposal. The commission recommends four actions by the Secretary of the Navy to modernize contractors' facilities and thus enhance productivity. First, the commission proposes that the secretary should strongly endorse and support DoD's Industrial Modernization Incentives Program (IMIP), which is intended to encourage contractors to invest in productivity-enhancing capital improvements. The IMIP funds on-site analyses of factory improvements and supplements contractor investment to implement worthwhile programs. Second, the commission recommends that the secretary establish an IMIP support team to provide training and other assistance to contracting officers and program managers to encourage IMIP implementation. Third, it is suggested that the secretary support interpretations of the cost accounting standards (CAS) to encourage new investment by permitting accelerated depreciation of new capital assets by defense contractors. Finally, the commission encourages the secretary to support the DoD Manufacturing Technology Program (MTP) and to consider increasing its funding. MTP is intended to reduce contractor risk associated with the introduction of new manufacturing technologies by providing up-front funding for innovations and for practical projects that can be applied to the defense production process.

Budgetary Impact. CBO cannot estimate that savings would accrue from the commission's proposals. The commission does not identify any Navy programs that would benefit from IMIP or MTP, nor does it identify what would be purchased with additional funds. The commission recommends only that the secretary support proposals to encourage contractors to invest in productivity-enhancing capital improvements. Since the secretary cannot independently change cost accounting standards, MTP funding, or accelerated depreciation tax rules, implementation of these recommendations would have no direct impact on budget authority and outlays.

An investment in productivity-enhancing capital improvements requires an initial outlay to generate any long-term savings. This is reflected in DoD budget data for IMIP, MTP, and other productivity-enhancement programs currently in the baseline. In fiscal year 1984, the Air Force received $83 million in IMIP funds and the Army received $2 million. The Navy did not request these funds according to DoD. DoD budget data for fiscal year 1981 through fiscal year 1984 reflect savings of $1.8 million and project total savings through fiscal year 1988 of $144.7 million from productivity-enhancement programs.

In fiscal year 1984, the overall DoD appropriation for MTP was $201 million. The PPSSCC estimates that savings of $1.5 billion can be achieved in the first three years, based on a five-to-one return on funds invested in the MTP program. The commission does not identify any savings accruing from proposed changes in depreciation of contractor assets.

Program Impact. Increased use of the IMIP and MTP programs might encourage more firms to bid on DoD contracts, which could broaden the defense industrial base. If these proposals were implemented, accelerated depreciation of capital assets for defense contractors would initially reduce tax revenues and raise the costs of weapons systems. In later years, defense contractor productivity improvements and lower depreciation could reduce procurement costs. Also, lower depreciation charges in later years could increase tax revenues and reduce the costs of weapons systems, assuming that contractors would retain such equipment after full depreciation.

Implementation. The Secretary of the Navy could request additional IMIP/MTP funds under existing authority. Changing accelerated depreciation for defense contractors would require Congressional action.

Additional Comments. GAO supports the intent of the PPSSCC recommendations--to enhance defense contractors' productivity and lower weapons systems acquisition costs. Such a goal is desirable for all of DoD--not just the Navy. GAO believes, however, that Navy endorsement of the IMIP would be premature because it is still being tested. The results of the IMIP should be thoroughly assessed before a final policy is issued or changes are made to the Defense Acquisition Regulation (DAR). The assessment should also be performed before IMIP support teams are established to provide training and other assistance to contracting officers and program managers to encourage IMIP implementation.

GAO cannot agree with the commission recommendation that calls for the Secretary of the Navy to support interpretations of the Cost Accounting Standards to encourage new investment by permitting accelerated depreciation of new capital assets by defense contractors. The recommendation does not reflect adequately recent Office of the Secretary of Defense (OSD) guidance on CAS409 Depreciation of Tangible Capital Assets. The current OSD position on CAS409 acknowledges that there is a provision of CAS409 that provides for shorter asset lives than would otherwise be determined by application of the standard. The OSD guidance emphasizes that the use of this special provision should only be used when appropriate criteria in the standard have been met.

GAO's current and past work on the DoD Manufacturing Technology Program has not identified the reductions in weapon system production costs noted by the PPSSCC. In fact, GAO has found that it is very difficult to substantiate savings attributable to that program, although the program has many supporters who believe benefits--albeit poorly documented and difficult to verify--are being realized.

References. PPSSCC, Task Force Report on the Department of the Navy, pp. 84-94. DoD, Office of the Secretary of Defense, Economies and Efficiencies, Fiscal Year 1984 (March 1983), p. 002. GAO, Interim Observations on Review of DoD's Manufacturing Technology Program (AFMD-83-97). GAO, Interim Observations in Effectiveness of DoD's Manufacturing Technology Program (AFMD-83-105).

CONSOLIDATE OR CLOSE BASES AND/OR BASE ACTIVITIES (OSD-4,8,9)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The PPSSCC recommendations are not sufficiently specific for a budgetary impact estimate.					
Outlays						

PPSSCC Proposals. The commission recommends that DoD close unnecessary bases, consolidate activities providing support for bases all in the same area, and consolidate major equipment maintenance facilities. These proposals take three specific forms:

- First, the President should appoint an independent commission to study base realignment or have DoD designate all bases as candidates for closure and begin appropriate studies.

- Second, DoD should make participation in the existing Defense Retail Interservice Support (DRIS) program mandatory to increase base support consolidations. Consolidations would be effected by carrying out recommendations over the next two years and by enacting over the next five years any further consolidations resulting from additional studies.

- Third, DoD should establish a timetable for consolidating depot-level maintenance facilities based on a to-be-established uniform cost accounting system for all such DoD facilities. Without identifying specific candidates, the PPSSCC proposal addresses the studies and planning necessary to identify bases and activities that could be realigned or closed. The only significant change to current practices would be to have an independent commission, rather than the Office of the Secretary of Defense and the services, recommend base realignments or closures.

Budgetary Impact. Base closure and realignment could yield substantial savings. But without a specific base realignment proposal and current studies of base requirements, it is impossible to estimate such savings.

Base closures save money when accompanied by job reductions, disbanding of military units, and reduced purchases of goods and services, such as utilities and equipment. If the real estate is sold, the closure may result in a one-time inflow of funds that would offset other expenditures. Because the size and complexity of military bases vary greatly, estimates of the savings from proposed base closures are impossible without specific details. For example, closing a base by co-locating the units stationed there at another base could save money if efficiencies of scale could be realized at the new base. In contrast, closing a base by disbanding the units stationed there surely would save money--most likely considerably more than would co-location. In addition, base closures always result in one-time expenditures for transportation of people and goods and other expenses of the closure. Such costs would offset potential savings and in some cases might be so large that a year or more could pass before the defense budget would actually fall as a result of the closure.

The commission proposal on base closures provides no details regarding its estimated three-year savings of $2.7 billion. The commission's estimate is based on an unpublished Office of Management and Budget study that was unavailable for CBO to review. Thus, while the potential savings from closing of DoD bases is theoretically large, the amount of potential savings from the PPSSCC proposal cannot be calculated. Although there have been earlier base realignment studies, these may be obsolete because of changing military requirements or because of changing local economic conditions. Similarly, there is no basis for estimating savings from consolidation of depot level maintenance facilities. The PPSSCC estimated three-year savings of $589 million, but provided no consolidation plan. The PPSSCC relied on GAO material for its savings estimates for maintenance facilities. As noted below, the GAO does not feel that its estimates are firm enough to be considered of budget quality.

A DRIS program to consolidate support functions of bases in the same area is already underway. DoD savings estimates of nearly $30 million annually are included in the CBO baseline. In contrast, the PPSSCC estimated three-year savings from DRIS activities at $993 million.

Program Impact. It is impossible to assess accurately the impact of base realignment without analyzing changes to specific bases. However, closing a base or substantially reducing its staffing could pose significant benefits and costs. Certainly, more efficient use of both manpower and equipment would occur as excess capacity was eliminated. But communities near bases would face higher unemployment and lower sales and income tax revenues, depending on the degree to which the local economy depended on the base and the size of the realignment planned.

A further unknown is the impact on military preparedness. Carefully defined realignments could improve military operations, but a realignment based solely on budgetary considerations could reduce military effectiveness. For example, the capacity of many military facilities is scaled to meet wartime surge requirements, not peacetime demands. Thus, a base could be closed and have day-to-day functions shifted to civilian operators. While such an action could produce significant budgetary savings, the effect on military readiness could be substantial and critical.

Implementation. Implementing the commission's proposals would require executive branch initiatives. Either the Secretary of Defense would have to identify all bases to be closed and develop a plan to consolidate their activities, or the President would have to appoint a commission to study and recommend bases for closure.

The commission noted that base realignments and closures have been minimal since the mid-1970s, as the services became more reluctant to agree to changes and as the Congress enacted legislation requiring its oversight of both base closures and realignment decisions. Such legislation includes 10 U.S.C. 2687, which requires advance notification and justification of such decisions to Congressional committees in certain circumstances. Preventing base closures or realignment decisions would require new legislation, however.

Additional Comments. Of the numerous military installations now being maintained in the United States, GAO feels that undoubtedly some could be closed--or their activities phased down--without affecting military preparedness. The GAO sees no problems with the PPSSCC's recommendation that the President appoint a commission to study such closings. GAO does not, however, agree with the PPSSCC's alternative approach whereby DoD would declare all bases candidates for closure and would begin preparing environmental impact statements as required by the National Environmental Policy Act. GAO feels this suggestion appears inconsistent with the commission's recognition (elsewhere in the report) that: "Environmental impact statements can be very expensive, often costing $100,000 to $1 million to perform and can take months and sometimes years to finalize."

Since it is not reasonable to expect that all installations could be closed, a universal canvass of all bases could waste both manpower and budgetary resources.

GAO has previously reported that reducing excess capacity and duplication at DoD depots could lead to significant savings. Most recently GAO testified that at least $100 million could be saved annually in aircraft depot maintenance alone, if it were properly structured. However, GAO cannot estimate the potential savings from a reduced need for specialized maintenance equipment or interest savings resulting from consolidation.

Although the commission proposal lacks sufficient detail, GAO believes the savings estimate for base support reorganization is realistic. In testimony on June 22, 1982, before the Subcommittee on Legislation and National Security, House Committee on Government Operations, GAO recommended annual savings goals of $108-540 million in base support personnel costs would be reasonable. This represents 1-5 percent of total military personnel costs. These are the major cost factors in base operations support.

References. PPSSCC, Task Force Report on the Office of the Secretary of Defense, pp. 74-78 and 98-109. GAO, Potential for Consolidation of the Maintenance Workloads in the Military Services (B-178736, July 6, 1973). GAO, Industrial Management Review of the Army Aeronautical Depot Maintenance Center, Corpus Christi, Texas (B-15896, December 17, 1973). GAO, An Industrial Management Review of the Maintenance Directorate, San Antonio Air Material Area, San Antonio, Texas (B-159896, April 11, 1974). GAO, Use of Numerically Controlled Equipment Can Increase Productively in Defense Productivity in Defense Plants (LCD-75-415, June 26, 1975). GAO, Management of Department of Defense Industrial Plant Equipment Can Be Improved (LCD-76-407, October 5, 1976). GAO, A Central Manager Is Needed to Coordinate the Military Diagnostic and Calibration Program (LCD-77-427, May 31, 1977). GAO, Aircraft Depot Maintenance: A Single Manager Is Needed to Stop Waste (LCD-78-406). GAO, Consolidating Military Base Support Services Could Save Billions (LCD-80-92, September 5, 1980). Statement of Werner Grosshans, before the National Security and Veterans Task Force, House Committee on the Budget (March 10, 1981). Statement of Werner Grosshans, before the Subcommittee on Legislation and National Security, House Committee on Government Operations (June 22, 1982).

IMPROVE AUTOMATED INVENTORY MANAGEMENT
(ADP-16, OSD-2, PROC-11)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The PPSSCC recommendations are not sufficiently specific for a budgetary impact estimate.					
Outlays						

PPSSCC Proposal. The commission proposes that DoD modernize its automatic data processing (ADP) logistics system for inventory management and control. New ADP systems should be compatible across services and centralized through an ADP logistics policy group. The same proposal appears in three different volumes of the commission's reports.

Budgetary Impact. CBO cannot estimate the investment costs and savings associated with the ADP modernization proposal because the commission does not provide specific details of the program. The commission estimates that this proposal would save $13-14 billion over three years. The savings allegedly would result from inventory reductions and other management improvements. PPSSCC staff have indicated, however, that this estimate is overstated by at least $6 billion because of double counting. The report calls for DoD to invest $1.4 billion over four years in new inventory management systems to accomplish these savings. Neither the reports nor the staff of the PPSSCC have identified what goods or services would be purchased for $1.4 billion. Because the $1.4 billion could be invested in a wide range of inventory management systems, a wide range of possible cost effects could also result. Without the details of the investment plan, it is impossible to make even an approximate cost estimate. In fact, no data exist with which to judge whether or not any savings at all would result from the investment proposed by the commission. Moreover, any savings might occur more slowly than the commission projects. It would take at least four years to design the system, select and deliver the hardware, and prepare the software. Thus, only after four years of added costs could any savings begin to accrue.

Program Impact. This ADP program might require that DoD drop some programs from its budget in order to fund the ADP modernization program. Alternatively, DoD could increase its overall budget request to allow for more ADP investments.

Implementation. In order to modernize the ADP logistics system and bring it up to private sector standards, the DoD would have to adopt the program to include it in the budget. Congressional action would then be required to authorize and appropriate the funds. Under Public Law 97-86, DoD's purchase of ADP equipment for routine administrative and business purposes, including logistics, are not exempted from the requirements of the Brooks Act (40 U.S.C. 759). The Brooks Act requires that an annual ADP acquisition report be filed with the Office of Management and Budget and the Congress by any federal agency purchasing computer equipment, unless it is to be used for intelligence and related purposes, or is an integral part of a weapons system or military or intelligence mission.

Additional Comments. GAO agrees that modernizing ADP facilities would contribute to improvements in inventory management. As discussed in the PPSSCC recommendations, however, part of the problem of inventory management is the high error rate in the data used to manage the inventory. GAO believes that the data problems should be solved before DoD makes a major investment in modernizing its computer facilities.

GAO agrees with the commission that the obsolete inventory management systems should be replaced, and that DoD could improve the timeliness of their ADP procurement processes. GAO also endorses the important caveat that weaknesses in management practice and system design should be changed first, rather than automated.

References. PPSSCC, Task Force Report on the Office of the Secretary of Defense, pp. 61-68; Task Force Report on Automatic Data Processing and Office Automation, pp. 169-72; Task Force Report on Procurement, pp. 76-80. GAO, The Army Can Save Millions Annually by Properly Considering Serviceable Returns in Its Requirements Computation (LCD-80-64, May 15, 1980). GAO, Opportunities Still Exist for the Army to Save Millions Annually Through Improved Retail Inventory Management (LCD-81-16, January 19, 1981). GAO, The Services Should Improve Their Processes for Determining Requirements for Supplies and Spare Parts (PLRD-82-12, November 30, 1981). GAO, Continued Improvements Needed in Air Force Procedures and Practices for Identifying and Canceling Excess on Order Stocks (PLRD-83-36, February 7, 1983). GAO, More Credibility Needed in Air Force Requirements Determination Process (PLRD-82-22, January 7, 1982). GAO, The Aviation Supply Office Continues to Have Problems with the Accuracy of its Requirements Determinations (PLRD-82-26, December 29, 1981). GAO, The Army has not Effectively Used Vertical Inventory Management Techniques (PLRD-83-11, October 28, 1982). GAO, Continued Use of Costly, Outmoded Computers in Federal Agencies Can be Avoided (AFMD-81-9, December 15, 1980). GAO, Non-Federal Computer

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Acquisition Practices Provide Useful Information for Streamlining Federal Methods (AFMD-81-104, October 2, 1981). GAO, Navy Logistics Data Base Problems Need Increased Management Attention (NSAD-83-48, August 19, 1983).

CHANGE PHYSICAL INVENTORY MANAGEMENT (PROC-10,12)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The PPSSCC recommendations are not sufficiently specific for a budgetary impact estimate.					
Outlays						

PPSSCC Proposals. Currently, DoD uses a statistical inventory system in which quantities on hand are checked through a process of random sampling. The PPSSCC proposes that a complete physical inventory be taken of all DoD supply facilities, in which the contents of all supply facilities would be counted at one time, suspending normal activities and the movement of material. Subsequent physical inventories would be routinely scheduled and would be expedited through the use of optically scanned bar-code technology similar to the Universal Product Code used in retail establishments. The commission believes that savings would be achieved when physical inventories identify surplus items that would reduce the need for future purchases and would not be found through random sampling.

The commission also proposes to require the military services to adhere to DoD's Economic Order Quantity/Variable Safety Level (EOQ/VSL) system. This system tells the inventory manager how often and how much of each item to buy and is designed to minimize purchasing and carrying costs while ensuring that projected demand will be met. The commission proposes that guidelines should be established to update regularly purchasing and inventory carrying costs and to encode items with a "relative essentiality factor." This would assist in maintaining optimal inventory size for both cost-effectiveness and military readiness.

Budgetary Impact. Any budgetary savings that would result from conducting complete physical inventories would flow largely from potential reductions of future procurement of supplies and to a smaller extent from receipts of one-time sales of surplus assets. No data exist, however, with which to assess the amount of oversupply, if any, in DoD's current inventories. Also, there is no way of knowing in advance if surplus items are included in current procurement plans. If not, there would be no identifiable savings from the DoD baseline budget. Thus, CBO cannot estimate potential costs or savings resulting from implementation of the proposal for physical inventories, until results of the initial physical inventory are known. The commission did not identify a savings level accruing directly from this proposal.

This proposal would entail some costs. According to DoD's Office of Manpower, Reserve Affairs and Logistics, an inventory of Defense Logistics Agency facilities, which represent approximately one-quarter of all DoD facilities, would require an estimated 200 man-years. This suggests that additional costs would be incurred to preorder critical parts and material that may be needed during the shutdown, if such an inventory were taken. These would partially offset savings generated from any subsequent inventory reduction. DoD has already incorporated into its program savings accruing from the use of optically scanned bar-code technology. DoD estimates net savings from this program of $112 million between 1983 and 1988.

CBO cannot estimate savings accruing from the proposal to enforce use of the EOQ Inventory Management System, because it cannot estimate the size of the excess inventories that may be identified or the speed with which these inventories can be liquidated. Determining excess inventories requires application of the EOQ system to each inventory item using the latest costs, demand estimates, and delivery time. Also, the extent to which the EOQ system is actually being overridden by DoD inventory managers is unclear. The commission, however, assumed that inventories could be reduced by $4.5 billion over three years and calculated savings based upon this assumption.

Program Impact. The complete inventory would require closing DoD supply depots during the process. In the private sector, the time required for this procedure is brief. Given the scale of DoD operations, however, and the requirement to ensure readiness, even a brief shutdown of its depots would require extensive planning and special orders of critical parts and equipment in order to maintain military preparedness.

Implementation. Making a complete inventory of supply facilities would be a DoD decision requiring no Congressional action. Introduction of bar-code technology would require a department-level decision, followed by a budget request and appropriate Congressional action. Establishing guidelines for compliance with the EOQ system is also an internal DoD matter.

Additional Comments. GAO agrees with the commission's recommendation for using current and accurate purchasing and inventory carrying costs for determining EOQ. GAO has previously reported that inventory management costs can be reduced when current and complete cost data are used to determine EOQ levels. When carrying costs increase at a greater rate than procurement costs, it is more advantageous to buy smaller quantities more frequently. Conversely, when repetitive procurement processing costs increase at a faster rate than carrying costs, it is more advantageous to buy larger quantities less frequently.

GAO also supports the recommendation to determine "item essentiality" in order to enhance readiness and ensure that optimal inventory levels are maintained.

GAO has previously reported that essentiality coding offers vast potential as a management tool for making informed logistics decisions concerning requirements, resource allocation, and repair priorities. A coding scheme that relates the essentiality of an item to the essentiality of the end item would allow logistics managers to establish priorities for buying, stocking, and repairing parts. This system would enhance readiness.

DoD has developed a method for essentiality coding. The services have been slow to implement the plan, however. The Air Force is further along than the Army and Navy, but it is still years away from fully implementing the essentiality coding scheme.

Another factor closely related to improving the, EOQ/VSL system is the need to better relate a variable safety level to improved readiness. GAO has previously reported on the inconsistent objectives of those who manage the inventory and those responsible for maintaining an operationally ready force. Inventory management effectiveness is based primarily on fill rates, whereas readiness rates are the primary effectiveness measure for operational users. Unfortunately, high fill rates do not necessarily equate to high readiness rates, because inventory managers concentrate variable safety levels on those inventory items--high demand, low cost--that ensure high fill rates. These items, however, are not necessarily those that ensure readiness. Thus, inventory management effectiveness is often achieved at the expense of operational readiness.

<u>References</u>. PPSSCC, <u>Task Force Report on Procurement</u>, pp. 71-75 and 82-88. GAO, <u>Navy Logistics Data Base Problems Need Increased Management Attention</u> (NSIAD-83-48, August 19, 1983). GAO, <u>Continued Improvements Needed in Air Force Procedures and Practices for Identifying and Canceling Excess On Order Stocks</u> (PLRD-83-36, February 7, 1983). GAO, <u>Better Investment Decisions Can Save Money At GSA and FAA</u> (PLRD-81-30, June 5, 1981). GAO, <u>More Credibility Needed In Air Force Requirements Determination Process</u> (PLRD-82-22, January 7, 1982). GAO, <u>Mission Item Essentiality: An Important Management Tool for Making More</u>

Informed Logistics Decisions (PLRD-82-25, January 13, 1982). GAO, The Aviation Supply Office Continues to Have Problems with the Accuracy of its Requirements Determinations (PLRD-82-26, December 29, 1981). GAO, Non-Federal Computer Acquistion Practices Provide Useful Information for Streamlining Federal Methods (AFMD-81-104, October 2, 1981). GAO, Logistics Managers Need to Consider Operational Readiness in Setting Safety Level Stocks (PLRD-81-52, August 10, 1981). GAO, Opportunities Still Exist for the Army to Save Millions Annually Through Improved Retail Inventory Management (LCD-81-16, January 19, 1981). GAO, Continued Use of Costly, Outmoded Computers in Federal Agencies Can Be Avoided (AFMD-81-9, December 15, 1980). GAO, The Army Can Save Millions Annually by Properly Considering Serviceable Returns in its Requirements Computations (LCD-80-64, May 15, 1980).

IMPROVE MANAGEMENT OF DoD LABORATORIES (OSD-19)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The PPSSCC recommendations are not sufficiently specific for a budgetary impact estimate.					
Outlays						

PPSSCC Proposal. The commission proposes that DoD improve planning, monitoring, management, and coordination of data exchange for research and development (R&D) between services and between defense laboratories in order to reduce duplication of effort and improve productivity in DoD labs. The PPSSCC believes that better management would facilitate the integration of emerging technologies into the weapons' acquisition process. In addition, the commission recommends that the role of DoD labs and the Defense Advanced Research Projects Agency (DARPA) be more narrowly defined and restricted to the earlier stages of the development cycle.

Budgetary Impact. CBO cannot estimate savings for these proposals for two reasons. First, there is a broad range of potential changes to R&D planning, monitoring, management, and coordination of data exchange, each having a distinct savings potential. Second, even if specific changes were recommended and put into operation, it would not be possible to estimate savings that might occur from any particular improvement in planning.

The commission estimates savings of $1.6 billion, assuming an across-the-board reduction of 5 percent in laboratory costs phased-in over a three-year period, once the proposal was implemented. No data were provided either in the PPSSCC report or by PPSSCC staff to support the 5 percent reduction.

Program Impact. An improved R&D process could stimulate timely development of qualitatively superior weapons systems.

Implementation. The proposals as outlined could be implemented administratively by the Secretary of Defense.

Additional Comments. GAO has no basis to assess the merits of the commission's recommendation because GAO has not done any recent work in this area. Earlier work done by GAO showed, however, that the data exchange and coordination between the services and defense research laboratories worked fairly well, although it was informal. This work revealed no serious problems in data exchange and coordination.

References. PPSSCC, Task Force on the Office of the Secretary of Defense, pp. 165-70; GAO, The State of Basic Research in DoD Laboratories (MASAD-81-5, February 10, 1981). GAO, Federal R&D Laboratories--Director's Perspectives on Management (PSAD-80-8, November 28, 1979).

IMPROVE DoD LONG-RANGE PLANNING AND MANAGEMENT FOR RESEARCH AND DEVELOPMENT (R&D-1,2)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The PPSSCC recommendations are not sufficiently specific for a budgetary impact estimate.					
Outlays						

PPSSCC Proposals. The commission recommends that DoD improve the planning and management process for research and development (R&D). The proposals include establishment of goals based on national defense priorities, development of long-range (or strategic) planning concepts and procedures, use of long-range planning for budgeting and operational management purposes, and introduction of multiyear budgeting for R&D. The commission further recommends that DoD streamline the R&D budget process by reducing its technical staff positions, that the Congress reduce the level of detail required to justify that budget, and that both DoD and the Congress shorten the R&D budget preparation and review cycle. Implementation of these proposals would lead to elimination of some R&D programs and introduce efficient management to the R&D budget process, according to the commission.

Budgetary Impact. CBO believes that the commission's proposals lack sufficient detail for a valid cost estimate. While it is clear that elimination of some staff positions and R&D projects would lead to savings, failure by the commission to identify the number of positions or specific projects to be eliminated makes a cost estimate impossible. Based upon the data provided by the PPSSCC, CBO and GAO cannot even confirm the order of magnitude of savings projected by the PPSSCC. While recognizing that there is some overlap in the proposals outlined here, the commission estimates the savings would be $6.14 billion over a three-year period, based on across-the-board reductions in the DoD R&D accounts of 2.5 percent for management improvements and an additional 5 percent for long-range planning improvements. No basis is provided for these assumptions in the PPSSCC report.

Program Impact. It is difficult to assess the program impact of these changes proposed by the commission without specific details.

Implementation. With the exception of multiyear budgeting and changes in the Congressional budget review process, all of the R&D management proposals could be implemented by the DoD within current authority. Multiyear budgeting and changes in the budget review process would require the cooperation and support of the Congress, as would the elimination of some currently authorized R&D programs.

The commission has overlooked one procedure--information management--that is essential to the successful implementation of long-range planning. Data bases and statistical information are the underpinnings of an effective long-term planning system. Information management is especially critical at DoD because of the diversity of its decisions and the need for cross-service analysis. Better structuring of information resources between the three services could assist in solving the perceived problem (cited several times by the commission) of poor coordination within DoD.

Several pieces of legislation demonstrate Congressional interest in the need for coordinating R&D activities, not only in DoD, but in other agencies as well. H.R. 480 would provide a focus for planning and coordinating federal research; H.R. 3717 would strengthen national minerals and materials policy coordination; H.R. 3840 would better coordinate interagency research and demonstration projects for improving knowledge and use of risk assessment by regulatory agencies; and H.R. 4186 would provide for the development of a national materials policy and for federal programs for advanced materials research and technology.

Additional Comments. GAO supports R&D budget reform, especially because basic and certain types of applied research and development are generic and essential to a strong science and technology base. Furthermore, GAO recommended a government-wide budget classification structure for federal R&D. GAO believes that streamlining the budget structure would enhance Congressional oversight over R&D--that is, R&D would be reviewed in terms of national objectives, rather than by the programs of individual agencies, and government-wide budget structures would facilitate coordinating the various agency programs. While GAO endorses the steps necessary to improve the quality and timing of budget-related decisions, it believes that this is one aspect of the much broader question of restructuring the federal government's financial management systems.

References. PPSSCC, Task Force Report on Research and Development. GAO, The Department of Defense's Planning, Programming and Budgeting System, by the Joint DoD/GAO Working Group on PPBS (September 1983). GAO, Comments on H.R. 750, the Biennial Budgeting Act of 1983, to the Chairman, House Committee on Government Operations (September 21, 1983).

REDUCE DoD OVERSIGHT OF CONTRACTORS' INDEPENDENT RESEARCH AND DEVELOPMENT COSTS (OSD-18)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The budgetary impact of the PPSSCC recommendations cannot be estimated with available information.					
Outlays						

PPSSCC Proposal. The commission recommends that costs for independent research and development (IR&D) incurred by military contractors should simply be reimbursed as overhead expenses. The current procedures of prior approval, expenditure ceilings, review processes, and other restrictions established by DoD and the Congress for IR&D should be eliminated. Instead, DoD should rely on competitive market forces to control costs. Each contractor engaged in IR&D should be required to submit only a one-page sheet describing the project for the DoD Data Bank to provide a technical data base for DoD planners.

Budgetary Impact. CBO cannot estimate savings because the results of implementating the proposal are uncertain. While it is clear that the elimination of 1,200 oversight jobs would lead to savings, CBO believes that these savings could be entirely offset by increased IR&D reimbursements. The prior approvals and negotiated cost ceilings on all IR&D efforts limit reimbursements to a fixed amount on approved projects. The commission's proposal would eliminate the ceiling on reimbursement and the oversight that allow DoD to control the cost and direction of research efforts. The commission states that these procedures reflect "a lack of confidence" in competitive market constraints on cost growth and imply that the removal of cost ceilings would not lead to increases in IR&D expenditures by contractors. CBO disagrees.

The defense industry is characterized by an extremely high degree of market concentration. Under these circumstances, it cannot be expected that firms will consistently engage in price competition. In fact, the percentage of defense procurement dollars subject to competitive bidding is the second lowest of any federal agency (31 percent). To rely on competitive forces to restrain cost growth under these circumstances seems unrealistic.

This recommendation could increase government costs by millions of dollars annually. Currently DoD has negotiated 101 contractor segments for IR&D and Bid and Proposal (B&P) ceilings. In 1981 the total of the ceilings for these contractors was $3 billion. The total expenditures for IR&D/B&P for these same contractors was $3.9 billion--$900 million over the negotiated ceilings for which the contractors had to pay. In 1982 the total of the ceilings was $3.6 billion, with total expenditures of $4.5 billion--another $900 million over the negotiated ceilings. In addition, hundreds of smaller contractors also have ceilings set more generally as a percentage of sales under Defense Acquisition Regulations. To remove these ceilings and the administrative constraints could also increase government's expenditures substantially.

The commission estimates savings to be $331 million over a three-year period. These estimates are based on elimination of DoD and contractor oversight personnel and other savings associated with ending the IR&D oversight process. Elimination of administrative overhead is only part of the impact of this proposal, however. For the reasons outlined above, CBO believes that savings might be entirely offset by increased contractors' IR&D charges.

Program Impact. The commission suggests that savings could be generated by reducing the DoD overhead costs associated with the management of the contract IR&D program. Over 1,200 DoD and contractor jobs would be eliminated and DoD would no longer be able to control directly the content of contractor research efforts. The proposed management savings would not have any significant effect on military readiness or military capability in the near term.

Implementation. Elimination of the legal restrictions on reimbursement of IR&D expenditures would require Congressional repeal of Public Law 91-441. The rest of the proposal could be implemented by the Secretary of Defense within existing authority.

Additional Comments. The GAO notes that this recommendation does not address Bid & Proposal expenses. These B&P costs are so interrelated with IR&D that dealing with one without the other is meaningless. Because IR&D and B&P activities cannot be separated, DoD has traditionally accounted for IR&D expenses in the same manner as B&P expenses.

References. PPSSCC, Task Force Report on the Office of the Secretary of Defense, pp. 156-64. Office of Management and Budget, Office and Federal Procurement Policy, Federal Procurement Data System Standard Report, Fiscal Year 1983 Third Quarter (December 31, 1983), p. 31.

REVISE DoD FINANCIAL ACCOUNTING AND MANAGEMENT (USAF-1)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The PPSSCC recommendations are not sufficiently specific for a budgetary estimate.					
Outlays						

PPSSCC Proposals. The commission proposes to revise DoD financial accounting and management by: (1) shifting the focus of Congressional appropriations from an obligation basis to an accrued expenditure basis; (2) enforcing P.L. 84-863, which requires use of accrual accounting; (3) changing the appropriations structure to combine all operating expense appropriations; and (4) providing a system that focuses on the total operating expenses of each organizational unit. This last proposal would allow unit commanders to use operating funds to acquire the mix of military, civilian, or contract personnel that the commander feels most economically meets unit requirements.

Budgetary Impact. The commission proposals do not include sufficient detail for CBO to estimate savings. The recommendations are managerial and technical in nature and would not in themselves cause savings; any efficiency-related savings would stem from subsequent actions that cannot be anticipated. Even if estimates of the efficiency-related savings were possible, the savings might be partially or totally offset by the added costs of installing and operating a revised accounting and budgeting system and the one-time cost of severance pay for military and/or civilian personnel who might lose their employment. Allowing commanders to increase or decrease personnel levels and mix the source of personnel could seriously affect the military personnel central management system, which is predicated on maintaining a rotational base sufficient to keep overseas tours to reasonable lengths.

The commission's three-year savings estimate of \$1.2 billion assumed an immediate 1 percent savings for total budgeted operating expenses, but the commission offers no basis for the savings assumption. It would be more reasonable to assume that it would take several years to develop and implement a major revision to the current DoD financial management and accounting systems, and any savings could be expected to accrue only after implementation of these new procedures.

Program Impact. Proposed changes to the financial reporting system would require a major redesign and reorganization of the current DoD operating, cost, budgeting, and accounting systems. The proposal to allow unit commanders to set personnel levels could fundamentally change personnel management. Congressional and Office of Secretary of Defense control of the size of the military and civilian workforces would be eliminated, leaving local unit commanders free to determine how funds would be spent to meet local manpower requirements. Reducing operating costs would be the primary guideline in making these choices. Decisions made solely on this basis could seriously interfere with the rotational base that supports the large overseas and at sea military deployments. And, if applied to overseas units, this management system could affect forward deployed units that are part of treaty commitments. This process would also have serious implications for controlling the flow of those military personnel needed for a mobilization base, even if their current routine functions could be covered by civilian or contract personnel.

Implementation. The government would implement the commission's financial proposal by enforcing P.L. 84-863, which requires accrual accounting; specifically, the commission proposes to change the law to stipulate a date for compliance with the Office of Management and Budget monitoring each agency's progress. Other steps would include changing appropriation accounts through Congressional action and installing a DoD-wide financial management system that focuses on total operating expenses of each organizational unit, and shifts control of financial resources to unit commanders.

Additional Comments. GAO agrees with the commission's recommendations 1, 2, and 4 and considers recommendation 3 to be unnecessary since operating expenses can be accumulated within an accounting system even though funding is provided by more than one appropriation. The following is a summary of GAO's analysis.

Concerning recommendations 1 and 2, GAO has long understood the shortcomings of the obligation basis of accounting within the federal appropriations structure and the need for improving financial management systems across the federal government. Since passage of Public Law 84-863, GAO has favored implementation of the concepts of cost-based budgeting and accrual accounting, while retaining the currently required obligation and cash controls. GAO believes that the implementation of accrual accounting throughout the federal government would improve financial control.

The Air Force has implemented accrual accounting in its Stock and Industrial Funds systems and selected activities financed with Operation and

Maintenance Funds, but has not instituted accrual accounting across-the-board in all accounting systems. The shift from obligation-based budgets to accrual-based budgets would not be achieved, however, with the sole enforcement of accrual accounting; the President and the Congress must require a change in emphasis to make accrual accounting and cost-based budgeting the unit of measurement in financial administration.

GAO believes that the implementation of recommendation 3 is unnecessary. GAO principles and standards already require accumulation of costs by organization, budget activity, and program structure. Also, subsection 16.5 of the GAO Accounting Principles and Standards for Federal Agencies requires agency accounting systems to classify costs according to (1) acquisition of assests and (2) current expenses.

GAO believes that implementation of recommendation 4 would contribute to better management controls. This recommendation is tied into two PPSSCC recommendations (USAF-1-1 and 1-2), and is aligned closely to the total costing or total operating expenses concept in GAO's Accounting Principles and Standards for Federal Agencies, Title 2. One area of departure between the Title 2 concept of total costing and the commission's recommendation is that of depreciation accounting. The PPSSCC recommends that depreciation accounting not be adopted, whereas GAO believes that in activities such as industrial funds or when full cost recovery information is required depreciation accounting is essential and should be considered an integral part of total costing.

References. PPSSCC, Task Force Report on the Department of the Air Force, pp. 7-16. GAO, Status, Progress and Problems in Federal Agency Accounting During 1970 and 1971 (B-115398, May 19, 1972). GAO, Status, Progress, and Problems in Federal Agency Accounting During Fiscal 1980 (AFMD-81-58).

CHAPTER III. ENTITLEMENT AND OTHER MANDATORY SPENDING PROGRAMS

The PPSSCC has advanced an array of proposals for reducing the budget deficit by cutting spending on entitlement programs--namely, those that dispense benefits in various forms to individuals, businesses, or governmental units on the basis of eligibility rules. Most of the federal expense of entitlement programs consists of benefit costs. The PPSSCC bases most of its proposals on a judgment that program benefits may be too generous or available to too many people. Accordingly, it recommends policy changes that would reduce either the size or the availability of benefits, or both. By far the greatest savings potential is in this category. Other proposals seek to improve program administration.

The CBO and GAO have analyzed 16 sets of the PPSSCC's proposed changes in entitlement programs, and CBO has estimated total budgetary effects (mainly outlay savings) of $15 billion over three years and $51 billion over the full 1985-1989 projection period. The PPSSCC, in contrast, has attributed three-year savings of $57 billion to its proposed changes in entitlement programs. The principal factor underlying the difference in estimates is timing. If the CBO's calculations were based on the first three years of implementation, its savings estimates would nearly triple, to more than $40 billion.

POLICY INITIATIVES

The PPSSCC estimates the greatest economies in this area to come from correction of perceived overlaps among entitlement programs and inefficiencies of program structure. The PPSSCC also proposes a major restructuring of the federal role in health care. Nearly all the budgetary effects (mainly outlay reductions) of the PPSSCC proposals would entail diminished benefits to individuals and to businesses. Because the criteria governing access to these benefits are established under the law, however, achieving the deficit reductions associated with the commission's proposals would require legislative action.

The PPSSCC recommends cuts in spending for health care, the Food Stamp program, Guaranteed Student Loans (GSLs), Railroad Retirement System (RRS) benefits, and Social Security Disability Insurance benefits. In addition, the PPSSCC suggests increasing the premiums that private firms pay to the Pension Benefit Guarantee Corporation (PBGC). CBO estimates that these proposals could produce net budgetary savings of $14 billion over the 1985-1987 period and $49 billion over the 1985-1989 period (see Table III-1).

TABLE III-1. CBO ESTIMATES OF NET BUDGETARY SAVINGS FROM PPSSCC PROPOSED POLICY CHANGES IN ENTITLEMENT PROGRAMS (By fiscal year, in billions of dollars)

Commission Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Health Care	0.0	0.0	3.9	9.5	15.6	29.0
Nutrition	1.1	1.1	1.2	1.2	1.3	5.9
Education	0.2	0.5	0.5	0.5	0.5	2.0
Income Security a/	1.4	1.9	2.4	2.8	3.3	11.8
Total a/	2.7	3.5	7.9	14.0	20.6	48.7

SOURCE: Congressional Budget Office.

a. Estimates include offsets from revenue reductions associated with changes in Railroad Retirement.

Health Care

The proposed fundamental change in the federal role in health care would limit the growth in federal health-care spending to the annual change in the Gross National Product. Though the specifics of this plan are not fully developed, it would apparently apportion federal health funds among regions on a per capita basis that also reflected regional variations in health-care costs. Monies would go to private, state, and local bidders competing for service contracts. The PPSSCC attributes potential savings of $28.9 billion to this plan over the first three years of implementation; the CBO estimate is virtually identical. Though the service cuts intended are not clearly outlined, substantial reductions would certainly be required. By 1989, federal health-care expenditures would be 10 percent below the CBO projections based on current law.

GAO believes that implementing this proposal now would be inappropriate, as too many assumptions would have to be made to permit the plan as envisioned by the PPSSCC to succeed. Either the level of health care provided would have to be lowered, or program beneficiaries would have to pay more. GAO doubts that some present Medicare and Medicaid beneficiaries would be able to pay more than they do now toward their health-care costs. GAO also notes that implementation of the PPSSCC proposal would affect many programs besides Medicare and Medicaid. The direct health-care delivery systems of the Department of Defense and Veterans Administration, for example, as well as the research programs of the National Institutes of Health, would all have their growth limited to the same percentage change in GNP, as would Medicare and Medicaid. If the Congress were to increase military health benefits or funding for cancer research, for example, it would have to cut funding in other health areas.

Nutrition

In the Food Stamp program, three changes are suggested to reduce overlaps with other programs and to lower benefit levels. The formula for calculating a family's "thrifty food plan" allowance would be revised, resulting in slightly lower benefit levels; recipient families with school-age children would receive smaller food stamp allotments, on the justification that the children were also receiving "free" school lunches; and a portion of each monthly food stamp allotment would be designated for dairy products. The first two changes together are estimated by CBO to reduce Food Stamp spending by $3.1 billion over the 1985-1987 period. The commission's three-year estimate is $5.2 billion. The primary difference is that the PPSSCC's calculations were done before recent updates in the thrifty food plan. The third recommendation--by encouraging consumption of dairy products and permitting reduced dairy purchases by the Commodity Credit Corporation (CCC)--would save an estimated $0.3 million over the three-year period. The PPSSCC estimates $0.4 billion over three years.

Although GAO concurs that changes are needed in the Food Stamp program's method of determining maximum monthly benefits, it feels that continuation of any uniform allotment system would be less equitable than an approach that provides benefits on the basis of the particular needs of specific categories of recipients. In general, GAO supports the concept of considering benefits from the various food-assistance programs when determining eligibility and benefit amounts under any nutrition program. With regard to the PPSSCC's proposal that part of each month's food stamp allotment be designated for dairy product, GAO disagrees. Before such a step was taken, preliminary consideration would have to be given to coordination with other programs already in place to reduce CCC food inventories. Finally, the dietary needs of food stamp recipients would require close consideration.

Education

In the area of education, the PPSSCC recommends two reductions in Guaranteed Student Loans. First, the current 5 percent "origination fee" to borrowers would be increased to 10 percent. Besides raising borrowing costs to all GSL participants, the increased origination fee would reduce loan amounts for the 50 percent of GSL borrowers who borrow the maximum amounts allowable. The result would be federal savings estimated by CBO at $1 billion over the five-year period. The PPSSCC estimates three-year savings at $1.6 billion, on the basis of a larger assumed loan volume.

Second, multiple disbursements of GSLs would be required, and the federal payments for interest and special allowances would be limited to the amount of the loan outstanding. At present, GSL lending institutions can provide either the entire loan at the start of a school year or multiple disbursements in installments over the year, but the federal payments for interest and special allowances begin with the initial disbursement and are calculated on the full loan. The requisite multiple-disbursement plan would reduce the federal subsidy to the lender, yielding savings of $0.3 billion over the three-year period, according to CBO. The PPSSCC has no comparable budget estimate. The PPSSCC has estimated a $1 billion interest saving resulting from lowering GSL loan capital. The loan capital, however, is financed by private lenders and is not part of the federal budget.

Income Assistance

In the area of income assistance, the PPSSCC recommends changing the appeals process for persons denied benefits under the Disability Insurance (DI) and Supplemental Security Income (SSI) programs. The process would be changed so that only a claimant who wanted to submit new evidence could obtain reconsideration by the original examiner. All others would have only an appeal to an Administrative Law Judge (ALJ), but the claimant would no longer have an opportunity to make his or her case personally. CBO estimates that the annual number of awards would decline by

45,000 in DI and by 35,000 in SSI, producing cumulative savings of $2.4 billion over the three-year period. The comparable PPSSCC estimate is $3.6 billion, assuming a greater reduction in new awards.

GAO believes that this approach represents a fundamental departure from long-standing agency practice, as well as from Administrative Procedure Act (APA) requirements (that is, ALJ hearings are now evidentiary, and denial of an oral hearing might prejudice the rights of the claimant). GAO therefore disagrees with the PPSSCC recommendation

Retirement

For Railroad Retirement, the PPSSCC recommends eliminating the federal appropriation that covers "windfall" benefits designed to prevent a reduction in total benefits for workers with dual coverage under RRS and Social Security from before the two were fully coordinated in 1974. If the windfall benefits were eliminated, approximately 370,000 annuitants and their survivors would experience an average cut of $1,100 in their yearly benefits. CBO estimates federal outlay savings of $1.1 billion over the five years, but this sum would be partially offset (by $0.1 billion) by a loss in income tax revenues. The PPSSCC three-year saving estimate is $1.2 billion, without a revenue offset.

The final PPSSCC policy recommendation for entitlement programs would address the deficit of the Pension Benefit Guaranty Corporation. This corporation ensures that employees who are vested in private pension plans will, upon their retirement, receive annuity benefits, even if their plans terminate or become otherwise unable to pay benefits. The main recommendation would increase the single-employer annual plan premium from $2.60 to $6.00 per participant. GAO has already recommended that the Congress increase the premium to $6.00. Other proposals are to assess a penalty on unfunded liabilities, change from a flat rate to a risk-related premium structure, and reduce the PBGC's liability for unjust claims. CBO estimates combined savings from these recommendations at $2.3 billion over a three-year period, based on an updated estimate of total unfunded liabilities. The PPSSCC three-year estimate is $3.7 billion.

GAO believes a 5 percent assessment on unfunded liability could result in a substantial burden on financially weak sponsors; new plans, for example, commonly start with large unfunded liabilities. Furthermore, if the assessments had to be paid out of the funds' resources, such special assessments could reduce benefit increases for participants in defined benefit plans. GAO thus believes the need for such an assessment requires further study. Moreover, the 5 percent assessment would exceed the PBGC's requirements over the next five years. If any special assessment is established, it should be at a rate more closely aligned to the PBGC's requirements.

MANAGEMENT INITIATIVES

CBO and GAO have analyzed seven PPSSCC management initiatives for entitlement and mandatory spending programs in the areas of agriculture, health, and income security. As shown in Table III-2, CBO estimates potential savings of $1 billion from these proposals over the 1985-1987 period and $2 billion over the full 1985-1989 period.

TABLE III-2. ESTIMATES OF OUTLAY SAVINGS FROM PPSSCC MANAGEMENT PROPOSALS FOR ENTITLEMENT PROGRAMS (By fiscal year, in billions of dollars)

Commission Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Agriculture	0	0	-0.1	-0.1	-0.1	-0.2
Health	0	0	*	*	0.1	0.1
Income Security	0.2	0.4	0.5	0.5	0.6	2.1
Total	0.2	0.4	0.4	0.4	0.5	1.9

SOURCE: Congressional Budget Office.

NOTE: Minus figures denote increased costs.

* Less than $50 million.

The commission's management proposals differ from its entitlement policy recommendations in several ways. First, five of the seven recommendations could be adopted without legislative action. Second, these proposals are not designed to reduce the benefits of entitled recipients. Instead, they would reduce error rates and improve program administration. The proposals address changes in the operations of the Commodity Credit

Corporation, Medicaid, Social Security, income assistance programs, and the Veterans Administration (VA).

Agriculture

The CCC currently distributes certain commodities (primarily dairy products and grains) from its inventories to the Food and Nutrition Service, the VA, and other federal agencies. The CCC charges for only a portion of these distributions. The PPSSCC proposes instead that distributions be fully reimbursed. Since reimbursements from one federal agency to another constitute intragovernmental transfers and do not add to federal spending or revenues, the only budgetary consequences of this proposal would derive from its effect on CCC inventories. CBO has estimated that inventories would rise as a result of reduced commodity distributions, with higher handling and storgage costs resulting in increased federal spending of $0.1 billion over the 1985-1987 period. The three-year PPSSCC estimate assumes a savings of $1.2 billion, based on an increase in interagencies transfers.

Health

In the health-care area, the PPSSCC recommends requiring that all states participating in Medicaid replace cost-based reimbursement systems with negotiated or "fixed-rate" systems. In addition, for all payers--both governmental and private insurers--the PPSSCC would encourage all states to implement hospital rate-setting programs. Finally, the PPSSCC recommends reducing federal spending on long-term care. These changes would require legislative action at both the federal and state levels. CBO estimates potential savings of $0.1 billion over the 1985-1987 period. The three-year PPSSCC savings estimate is $1 billion. The PPSSCC estimate assumes that Medicaid savings could be achieved in all states from moving to a fixed-rate system. CBO assumes that savings would be achieved only in the 26 states that currently reimburse for in-patient hospital services using cost-based methods; disbursements in these 26 states account for 29 percent of all Medicaid in-patient hospital expenses.

Income Security

To reduce overpayment of Social Security benefits, the PPSSCC recommends the Social Security Administration tighten its enforcement of the current earnings test. Recent changes by the Social Security Administration have greatly reduced overpayment errors, however. Fully implementing the PPSSCC proposal would require an updated data processing system. Given current schedules, the updated computer system will not be available until 1988 or 1989. CBO has therefore attributed no five-year savings to this proposal, although later savings are possible. The PPSSCC estimates three-year savings of $4 billion.

To coordinate and automate state welfare data and to improve income verification in means-tested programs, the PPSSCC makes several recommendations. The PPSSCC recommendations would improve the targeting of benefits toward intended beneficiaries by permitting a more accurate assessment of beneficiaries' incomes and other resources. CBO estimates three-year savings of $0.7 billion, assuming full implementation. This compares with a PPSSCC three-year estimate of $3.6 billion. Many of the PPSSCC recommendations have already been implemented or would require only minor changes in the current system.

Finally, the PPSSCC recommends refining the VA's response to guaranteed loan foreclosures and reducing error rates in the VA's claims processing. In response to the PPSSCC report, the Administration has already reviewed its loan foreclosure procedures, and the President's proposed 1985 budget contains several of the suggested changes. CBO estimates the PPSSCC proposals, if fully implemented, could reduce outlays by $0.3 billion over the three-year period. At $0.2 billion, the PPSSCC three-year savings estimate is slightly lower primarily because the commission's estimate reflects a reduction in costs rather than outlays. Though reducing errors in VA claims processing is possible, no information is available on which to base an accurate estimate of the potential federal saving. The PPSSCC estimate assumes savings of $1.5 billion over three years. The VA has recognized many of the issues raised in the PPSSCC report, and it has recently taken a number of steps to improve error detection.

LIMIT GROWTH IN HEALTH-CARE COSTS TO GNP GROWTH (MEDIC-1)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	0	0	2,600	5,300	8,400	16,300
Outlays	0	0	3,900	9,500	15,600	29,000

PPSSCC Proposal. During 1975-1983 federal health expenditures grew at 14 percent annually compared with an annual increase of 10 percent in GNP during the same period. Although some of this difference can be accounted for by higher inflation in health-care prices compared with general inflation, most of the increase in health-care cost over general inflation has been due to increased usage. The PPSSCC attributes much of the rapid increase in federal health-care costs to lack of competition because of the low out-of-pocket expenses incurred by beneficiaries of federal health programs. The PPSSCC accepts the recently legislated diagnosis-related group (DRG) prospective payment system for Medicare only as a short-term solution that will not work in the long term.

The PPSSCC proposes limiting the growth in the Medicare and Medicaid program costs to the rate of growth of the GNP. This growth limit would determine the amount of federal money available for Medicare, Medicaid, and other federal health programs. Based on the total number of Medicare and Medicaid beneficiaries, the funds would be divided on a per capita basis. The funds would be distributed to regions according to the number of beneficiaries within each region and regional variations in health care costs. Based on the established per capita spending rates, private-sector and state and local health-care systems would submit competitive bids to the federal government to provide health-care services. Beneficiaries would have a choice of plans with varying degrees of coverage and benefit levels.

The PPSSCC proposal is not specific with respect to which federal programs are included in the proposal or how the plan would be implemented for the different federal programs. Medicaid is administered by states while Medicare is administered by the federal government. The Department of Defense (DoD) and the Veterans Administration (VA) both run nationwide systems of hospitals and clinics for their beneficiaries. Although federal health programs provide health care through a great variety of institutional arrangements, the PPSSCC did not tailor its proposal to the different agencies. In the absence of guidance from the PPSSCC on how the plan would work for DoD and VA, CBO and GAO has limited their discussion below to the Medicare and Medicaid programs.

Budgetary Impact. This proposal could save an estimated \$29.0 billion over the period 1985-1989. 1/ CBO assumes that a two-year implementation period would be required for such a fundamental change. No savings would therefore be realized during the period 1985-1986. To calculate the savings during 1987-1989, CBO compared Medicare and Medicaid outlays using CBO's baseline projected growth rates with those outlays at a growth rate limited to that of GNP. Currently, Medicare's Health Insurance (HI) program is projected to grow at about 11 percent a year between 1987 and 1989. During this same period, the Supplemental Medical Insurance (SMI) program is projected to increase at 15 percent a year, and Medicaid at 9 percent a year. The budgetary savings recommended by the PPSSCC would limit growth in Medicare and Medicaid to about 8 percent a year. By 1989, Medicare and Medicaid expenditures would be 90 percent of baseline projections. The PPSSCC estimated three-year savings of \$28.9 billion for this proposal, as against CBO's estimate of \$29.0 billion for the first three years after implementation. Although the estimates are very similar, the PPSSCC includes programs from DoD and VA in its figures, while CBO includes only Medicare and Medicaid. The PPSSCC estimate is for 1984-1986 compared with 1987-1989 for the CBO savings.

Program Impact. The 10 percent reduction in health expenditures for 1989 could be achieved from cuts in enrollments, utilization per enrollee, or in the prices of services. The PPSSCC proposal is not specific with respect to how the cuts in the program would affect beneficiaries. Under this proposal, the private sector would be called upon to accomplish a very large reduction in health-care spending. Whether tools are available to achieve such a reduction without shifting financial burdens to beneficiaries or reducing the quality of care is not known. Presumably, many plans that are successful bidders will employ significant limitations on choice of providers, increased cost sharing, and/or more stringent claims review--tools that are controversial. In addition, adverse selection (beneficiaries choosing plans according to their expected use) may severely complicate the process of choice among plans.

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1. Because these limits are an alternative to prospective reimbursement systems, the savings of \$135 million from LISAB-8 during 1987-1989 cannot be added to the savings from this proposal when computing total savings from PPSSCC recommendations.

The impact of the PPSSCC proposal might be less severe on those state Medicaid programs that already limit coverage and choice. At the present time, a series of Medicaid competition demonstrations are testing the effects of various arrangements similar to this proposal. Although the PPSSCC proposal may not necessitate major changes in the nature of the Medicaid programs, the limits to growth would decrease federal matching funds by roughly 1 percent.

The PPSSCC proposal does not specify which DoD and VA programs would be subjected to limits or how these limits would be instituted. However, the shift to a system in which beneficiaries are treated by a private-sector party would present a major change in those programs. DoD and VA have substantial hospital and clinic systems for their clients. These beneficiaries also would face restrictions on coverage or additional cost sharing.

Implementation. This proposal would require legislative action.

Additional Comments. GAO notes that the federal and state governments are currently experimenting with many of the elements included in the overall PPSSCC recommendation. Over time, these experiments may help answer the questions raised by the PPSSCC's competitive health-care strategy. GAO believes that fundamental questions regarding not only costs but also quality and availability of care should be answered before adopting the PPSSCC's recommendation. In particular, GAO believes the DRG prospective payment system should be given the opportunity to evolve fully before a decision is made regarding its usefulness in containing health-care costs. GAO therefore does not believe it appropriate to consider implementing the proposal.

GAO further notes that the PPSSCC proposal basically would cover only two of the six factors increasing the costs of health care--general inflation and population growth. HHS estimates show, however, that the growth of the four other factors during the past decade--health-care price inflation, increased use of services, changes in medical technology, and increased medical intensity--accounted for about 41 percent of the growth in community hospital in-patient expenses and about 34 percent of the growth in payments for physician services.

References. PPSSCC, Task Force Report on Management Office Selected Issues, vol. IX, Federal Health Care Costs, pp. 1-65. CBO, Containing Medical Care Costs Through Market Forces (May 1982).

REVISE THE FAMILY MAKEUP FOR THE THRIFTY FOOD PLAN (AG-9)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	490	515	540	560	585	2,690
Outlays	490	515	540	560	585	2,690

PPSSCC Proposal. The cost of the Department of Agriculture's thrifty food plan has been used as the basis for determining allotment levels in the Food Stamp program since 1976. The thrifty food plan is a set of foods that households might use to provide nutritious meals and snacks at a relatively low cost; it is the lowest-cost plan of four that the department has developed. The costs of these plans are updated monthly to reflect changes in prices. The plans and their costs are determined for a number of age and sex groups; costs for particular households can be calculated by adding costs for individual members according to their age and sex and applying economy-of-scale factors developed in conjunction with the plans.

Under current law, the maximum Food Stamp allotment for a four-person household during a fiscal year is based on the cost of the thrifty food plan during the preceding June for a household consisting of a man and woman 20 to 54 years of age and two children, one 6 to 8 and one 9 to 11 years of age. Maximum allotments for larger or smaller households are calculated by using the per person cost of the four-person reference family adjusted for economy-of-scale factors.

The PPSSCC proposal is to replace the current four-person reference family as the basis for the maximum allotment levels with a more individualized system based on a weighted average of thrifty food plan costs for all the age/sex categories used in developing the plan. The weights used would be the proportions of actual participants in each category. Maximum allotments for households of other sizes would be based upon this weighted average four-person household value and would be calculated using the current method.

Budgetary Impact. CBO used basically the same method as the PPSSCC to prepare its savings estimate. Differences between the current and proposed maximum allotment levels for each household size were calculated and multiplied by the projected number of households in each size category to arrive at the total savings estimate. However, the PPSSCC three-year savings estimate of nearly $3.4 billion from this proposal is more than twice as large as the CBO estimate of $1.5 billion for 1985-1987. The major reason for CBO's lower estimate is the use of the recently revised thrifty food plan, which is expected to be the basis of future allotments, rather than the original thrifty food plan developed in 1975. Differences in the projected caseload level, the PPSSCC's inappropriate inclusion of the Puerto Rico program in its estimate, and the commission's inclusion of minimum-benefit households in its savings estimates also contribute to this difference.

The 1983 revision of the thrifty food plan incorporates new data on food consumption, prices, nutritional composition of foods, and human nutritional requirements. The revised version was designed so that the cost level for the current reference family would be the same as that of the original version for an initial month. However, relative costs for different age and sex categories were not constrained to equal those of the original thrifty food plan. The revised plan has less variation in cost across age/sex categories than the original plan, and thus less savings as a result of changing from the current reference household to a weighted average of all participants.

Program Impact. This proposal would reduce maximum allotment levels and, as a result, benefits received by most households. Maximum allotments would be reduced because the average thrifty food plan cost for members of the reference household exceeds the weighted average of costs for all participants. This is because age and sex groups with relatively high costs tend to be overrepresented in the reference family and those with relatively low costs underrepresented. A male 20 to 54 years of age, for example, has a high thrifty food plan cost compared to other categories. This group is 25 percent of the reference family, but only about 10 percent of the participating population.

This proposal would reduce benefits for all Food Stamp households except those one- and two-person households receiving the $10 minimum benefit. About 5 percent of all households currently receive the minimum benefit. The estimated amount of the reduction in the monthly benefit for each household size in fiscal year 1985 is shown below:

Household Size	Estimated Fiscal Year 1985 Monthly Benefit Reduction (dollars)
1	3
2	4
3	6
4	8
5	9
6	12
7	12
8	14

Implementation. Legislation would be required to change the method of calculating maximum allotment levels. The Food Stamp Act of 1977 requires that calculations for maximum allotment levels be based on the four-person "model" household.

Several bills have been introduced, but not adopted, that would have required the use of individualized allotments. With individualized allotments, maximum allotment levels for each household are determined by the age and sex of its members. No legislation has been introduced that would revise the current model four-person household in the way the PPSSCC recommends. The PPSSCC recommendation could be easily implemented as it would require no changes in current methods of program administration, and would have no direct effect on state or local governments.

Additional Comments. The PPSSCC report states that this proposal is an administratively simple method of bringing maximum allotment levels more in line with the dollar value of household food needs consistent with the thrifty food plan. Determining maximum allotments for each household based on its age and sex composition might be preferred but would be administratively burdensome and apt to increase issuance errors. This argument is based on the assumption that using maximum allotment levels more in line with individualized allotments would be consistent with the intent of the Congress in adopting the use of the thrifty food plan.

Opponents of the proposal argue that it is fundamentally a method of reducing benefits, that current Food Stamp benefits are already low relative to what might be needed to assure that participants' diets are nutritionally adequate, and that further reductions would have deleterious effects. They cite the most recent Nationwide Food Consumption Survey, which showed that only 9 percent of households using food valued at or below the thrifty food plan level consumed the recommended daily allowance (RDA) for 11 major nutrients, as compared with 50 percent of households at all spending levels.

The GAO agrees with the PPSSCC that changes are needed in the method of determining maximum monthly allotments but believes that the PPSSCC recommendation is not the best solution. The GAO has previously recommended that the Department of Agriculture establish demonstration projects to evaluate the use of individualized allotments. It believes that individualized allotments would result in a more equitable distribution of program benefits than either current policy or the PPSSCC recommendation.

References. PPSSCC, Task Force Report on the Department of Agriculture, pp. 47-53. GAO, Federal Domestic Food Assistance Program--A Time for Assessment and Change (CED-78-113, June 13, 1978).

REDUCE THE FOOD STAMP-CHILD NUTRITION OVERLAP (AG-13)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	500	515	530	550	570	2,665
Outlays	500	515	530	550	570	2,665

PPSSCC Proposal. Food Stamp benefits are currently calculated by subtracting 30 percent of the household's net income from a maximum allotment level that is determined for each household size. Net income is gross income less allowable deductions. The definition of gross income includes most sources of money income--not only earnings but benefits from programs such as Aid to Families with Dependent Children, Supplemental Security Income, Social Security, and Unemployment Compensation. Specifically excluded from the definition of gross income is "any gain or benefit which is not in the form of money payable directly to a household." Thus, benefits received in kind, such as free lunches in the national school lunch program or certain medical and housing assistance programs, have no effect on the level of Food Stamp benefits received by households.

The PPSSCC recommendation is to include as part of income the value of the cash subsidy for free lunches in the national school lunch program for households with school-age children. For administrative ease, a standard amount would be added to household income for each child between the ages of 5 and 17. The monthly amount would be 20 times the value of the federal cash reimbursement for a free lunch and would apply only during the months of September through May. The effect of this proposal would be to reduce Food Stamp benefits for households with school-age children by an amount roughly equal to one-third of the federal subsidy for school lunches.

Budgetary Impact. CBO's estimate of savings from the commission proposal uses projections of the number of school-age children living in Food Stamp households, the cash reimbursement rates in the school lunch program, and the average effective rate of benefit reduction. During fiscal year 1985, for example, the cash reimbursement rate for free lunches is projected to be abut $1.27 per meal. At 20 meals per month, the monthly addition to gross income, rounded to the nearest whole dollar, is $25 per school-age child. The projected number of school-age children in Food Stamp households for 1985, based on forecasts of aggregate participation and age distributions from household survey data, is 6.81 million. The resulting increment to income across all Food Stamp households for the nine months of the school year is estimated to be $1,537 million. The total benefit savings would be 32 percent of this income increment, or $490 million. The estimate of $500 million savings in fiscal year 1985, and the estimates for later years shown above, were based on unrounded estimates of the per child addition to income. The CBO savings estimate of $1.5 billion for 1985-1987 is similar to the PPSSCC three-year estimate of $1.7 billion.

Program Impact. This proposal would reduce Food Stamp benefits to most participating households with school-age children. These households currently are about 40 percent of all participating households. Of this group, 13 percent have deductions that exceed their gross income so that the addition of "school lunch" income would tend not to affect their benefits. The monthly reduction in Food Stamp benefits resulting from the increase in income would vary depending on the size of the household's excess-shelter deduction, which is affected by gross income. If the household has no excess-shelter deduction or a deduction at the maximum allowable level, monthly benefits would be reduced by 30 percent of the increase in gross income--about $7.50 per school-age child. If the household's excess-shelter deduction is positive but not at the maximum, monthly benefits would be reduced by 45 percent of the increase in income, or about $11.25 per school-age child. The average reduction across all households with school-age children, including those whose benefits are not likely to be affected because their deductions exceed their gross income, would be 32 percent of the increase in income.

Implementation. This proposal would require legislation, as the Food Stamp Act specifically excludes in-kind benefits from the definition of income for purposes of determining benefits. A related proposal was included in the President's budget for fiscal year 1982, was considered by the Congress, but was not adopted.

Additional Comments. The PPSSCC holds that both the Food Stamp and the National School Lunch programs are designed to subsidize meals for eligible participants, and that under the current system duplicative benefits are provided. Food Stamp benefits are provided for meals of school-age children who also receive free lunches through the school program. The PPSSCC argues that its proposal is fair and realistic because it treats the benefits of the school lunch program like other forms of assistance. The recommendation does not eliminate the "overlapping" benefits but does reduce the amount of duplicative benefits issued.

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Opponents of the proposal argue that assistance designed to improve the nutritional health of children should not be reduced, that Food Stamp benefits are already low, and that further reductions in addition to those enacted during the past several years may have detrimental effects on participants.

GAO supports the concept of considering benefits from the various food assistance programs when determining eligibility and benefits under any particular food program. GAO recommended in 1978 that the Department of Agriculture study the feasibility of considering food benefits from child feeding programs, primarily school lunch but also other federal feeding programs, when determining Food Stamp eligibility or benefits. It also recommended that the Congress eliminate the overlap in benefits, particularly from Food Stamp and school lunch participation, if the study showed such a change was feasible.

References. PPSSCC, Task Force Report on the Department of Agriculture, pp. 66-68. GAO, Federal Domestic Food Assistance Programs--A Time for Assessment and Change (CED-78-113, June 13, 1978).

REDUCE COMMODITY CREDIT CORPORATION INVENTORIES (ASSET-5)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	85	95	100	105	110	495
Outlays	85	95	100	105	110	495

PPSSCC Proposal. The PPSSCC proposes two ways of reducing the inventories of surplus agricultural commodities held by the Commodity Credit Corporation (CCC). It recommends that some percentage of coupons issued in the Food Stamp program be designated for the purchase of dairy products of the types bought by the Commodity Credit Corporation. This recommendation is designed to increase domestic consumption of dairy products and reduce the amount of dairy products that the CCC must purchase to support the price of milk. Costs of storing CCC stocks would also be reduced. The commission report discusses savings from designating 20 percent of food stamps for dairy product purchases.

The commission also recommends eliminating interagency conflict in the administration of the Public Law 480 food aid program, with the expectation that CCC's inventory could be reduced by 30 percent through greater use of that program.

Budgetary Impact. CBO estimates that the Food Stamp proposal would save $495 million over the 1985-1989 period, while the Public Law 480 recommendation would result in no additional savings. Most of the estimated savings from the designation of a portion of food stamps for dairy products stem from reductions in CCC purchases. Estimated storage savings from reduced inventories are $2 million in fiscal year 1985 and increase to $11 million in fiscal year 1989 as the cumulative stock reductions increase. These savings would be offset slightly by increases in Food Stamp program administrative costs caused by increased issuance costs and possible increases in printing costs. These offsetting costs are assumed to be relatively small and are not included in the estimate.

Food Stamp households would tend to purchase and consume more dairy products than under current policy if the value of specially designated dairy stamps received exceeded their usual purchases. Data from the

Nationwide Food Consumption Survey (NFCS) and a survey of characteristics of Food Stamp households were used to compare estimates of average dairy product purchases with the value of designated stamps that would be received under the proposal.

Data from the NFCS indicates that Food Stamp households spend an average of 11.8 percent of their food dollar on dairy products. At the time of the survey, the average Food Stamp household spent about $210 per month on food, of which $24.70 was used for dairy products. The average Food Stamp benefit received by sampled households was $95.70. Twenty percent of this benefit, or $19.15, is less than the estimated average value of dairy products purchased. Thus, the average household would not purchase more dairy products under this proposal.

Some households, however, would receive designated dairy stamps in excess of the value of their usual purchases of dairy products. These households, which would primarily be those with relatively low incomes and relatively high Food Stamp benefits, might tend to purchase more dairy products than they would under the continuation of current policy.

The savings estimate is based on the assumption that all households of a given size currently purchase average amounts of dairy products, and that additional dairy products would be purchased and consumed if the value of designated stamps received exceeded this average baseline amount. Based on these assumptions, CBO estimates that about 40 percent of Food Stamp households would be induced to purchase more dairy products than they would under current law. The remaining households would have spent at least as much on dairy products as they received in designated dairy stamps without the law change.

A more complete analysis of this proposal would require better information on the distribution of current dairy product purchases by Food Stamp participants, a more thorough examination of how Food Stamp participants might behave in response to this proposal, and consideration of the interaction of this proposed change with the current programs providing cheese and other commodities to needy families.

The PPSSCC estimate of savings from reduced CCC purchases is $425 million in the first year the proposal is implemented. The estimate is based on the assumption that 12 percent of food stamp allotments are currently used to purchase dairy products, while the Department of Agriculture surveys indicate that about 12 percent of all food expenditures are for dairy products.

The PPSSCC also estimates that expediting commodity disposal decisions for foreign aid will result in receipts of $957 million from the sale of CCC inventories, as well as $521 million in interest and other savings. CBO, however, projects no savings from the recommended changes in agency decision processes. The Public Law 480 program has other important objectives besides disposal of inventories--including foreign policy, humanitarian, and market development goals. The need to balance these objectives cannot be eliminated by procedural changes. Even if commodity disposal were to be given a higher priority, a 30 percent reduction is unlikely, because demand for the products is uncertain. Much of the inventory is not well-suited for foreign dispostion, because it consists of dairy products requiring reprocessing and refrigeration for distribution.

Furthermore, commodity sales under Public Law 480 are unlikely to yield substantial revenues. Receipts to the CCC are from interfund transfers from Public Law 480 appropriations. Most Public Law 480 loans are repaid over 40 years with a ten-year grace period. Donations would produce no revenues. As a result, the only significant potential savings from inventory reduction within five years would be lower storage costs. Such reductions, however, are unlikely to result from the commission's proposal.

Program Impact. The Food Stamp proposal would affect coupon preparation, issuance, and use by participating households and retail food stores. Some method would be developed to designate and issue a proportion of participating households' allotments for dairy product purchases. Dairy products would be separated in some way during purchasing at the retail store in much the same way that eligible food and ineligible nonfood items now must be separated. This proposal would cause some Food Stamp households to purchase and consume more dairy products than they would under the current law. Any increase in total dairy product consumption would tend to reduce the amount of dairy products that the CCC would have to remove from the market in their milk price-support activities. Lower CCC removals would reduce CCC price support outlays as well as storage expenses in current and future years.

The Public Law 480 proposal, if implemented so as to produce a significant inventory reduction, could conflict with other national objectives. For example, international trade agreements might be jeopardized, and dairy exporting nations might retaliate. Also, inventory disposal could discourage food production in developing countries and, in the long term, diminish their self-sufficiency.

Implementation. Legislation would be necessary to implement the Food Stamp proposal, while the Public Law 480 change could be made administratively.

Additional Comments. GAO believes that the Food Stamp recommendation may generate savings for the federal government, but does not support the proposal. It argues that a number of issues must be carefully examined before adopting this approach. These issues include the effects it would have on the nutritional requirements of Food Stamp participants and its interactions with other current programs aimed at reducing CCC dairy stocks, such as the current program under which farmers will be paid to reduce milk marketings.

The GAO has recommended that the Agency for International Development be given responsibility and authority for the grant portion of Public Law 480 and final responsibility to carry out the multiyear developmental aspects of the program. This contrasts with the PPSSCC recommendation that final responsibility be given to the Department of Agriculture. GAO notes that substantial increases in shipments of commodities to developing countries through Public Law 480 would require consideration of legislative requirements to avoid potential disincentive effects on local food production. Precautions would also be necessary to safeguard commercial exports of the United States and not unduly disrupt world prices or normal patterns of commercial trade with friendly countries.

References. PPSSCC, Task Force Report on Financial Asset Management, pp. 64-71. GAO, Conditions That Limit Using Barter and Exchange to Acquire National Defense Stockpile Materials (RCED - 84-32, June 23, 1981). GAO, Food for Development Program Constrained by Unresolved Management and Policy Questions (ID - 79-25, October 15, 1979). GAO, Coordinating U.S. Development Assistance: Problems Facing the International Development Cooperation Agency (ID - 80-13, February 1, 1980). GAO, U.S. Assistance to Egyptian Agriculture: Slow Progress after Five Years (ID - 81-19, March 16, 1981).

REQUIRE MULTIPLE DISBURSEMENTS OF GUARANTEED STUDENT LOANS (ED 1-2)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	-30	110	110	100	100	390
Outlays	0	110	110	100	100	420

NOTE: Negative figures indicate budgetary costs.

PPSSCC Proposal. The PPSSCC recommends that multiple loan disbursements to students made under the Guaranteed Student Loan (GSL) program be required by law. GSL lenders (commonly, private financial and educational institutions) now can disburse loans for the coming academic year either at one time or in multiple allotments. Some policymakers regard smaller, more numerous disbursements timed to coincide with school billing as a more prudent way to manage the monies. To encourage private lenders to make multiple disbursements, the law currently allows federal interest and special allowance subsidies to be paid on the entire loan amount from the disbursement of the first installment. In addition, the PPSSCC recommends that federal interest and special allowance subsidies be paid only on the portion of the loan actually disbursed to students.

Budgetary Impact. Approximately half of the loan volume disbursed each year occurs in July, August, and September. This volume most likely finances full academic years and thus could be subject to multiple disbursements. According to CBO analysis, the net savings from requiring multiple disbursements and limiting interest subsidies to only the portion of the loan disbursed is estimated at $390 millin in budget authority and $420 million in outlays over five years. Further savings would result from lower default costs if potential defaulters dropped out of school before receiving the second installment.

Annual disbursements of new GSLs in each of the next five years are estimated at $7 billion. Under this proposal, new disbursed loan volume would drop in 1985 to $5.25 billion, assuming $1.75 billion would not be disbursed until the second quarter of fiscal year 1986. This would lower interest subsidy costs in 1985 by nearly $60 million. The 5 percent origination fee assessed on new loans, which partially offsets federal interest subsidy costs, is assumed to be charged when the loan is disbursed. This would delay fee receipts of approximately $90 million until the second quarter of fiscal year 1986. The net effect in 1985 would be an increase in net budget authority of $30 million. The outlay effect would occur in 1986 under the PPSSCC proposal.

The PPSSCC has no comparable budgetary estimate for this proposal. The PPSSCC's estimated savings of $1 billion over a three-year period seem to be in interest on the public debt resulting from lowering the GSL loan capital by $4.7 billion over three years. In fact, however, GSL capital is financed by private lenders and is not part of the federal budget. Furthermore, loan capital would not be reduced but shifted two quarters. The CBO savings estimate of $190 million over a three-year period, on the other hand, reflects the impact on the GSL program only.

Program Impact. Loan capital in the GSL program is primarily provided by private lenders. One major factor a financial institution consideres when deciding to participate in the program is the profitability of the loan portfolio. Any change to the lender's yield could discourage participation and thus the availability of loan capital to eligible students. Although lender response cannot be predicted, these changes would reduce yields to lenders; however, since the reduced yields come at a time when lenders are incurring little cost, the impact on participation of lenders would probably be small.

Implementation. Both requiring multiple disbursements of loans and changing the federal interest subsidies would require legislative action. Since not all loans are for an entire academic year, guidelines would be needed to determine when multiple loan disbursements would be required.

References. PPSSCC, Task Force Report on the Department of Education, pp. 23-31.

INCREASE THE ORIGINATION FEE ON GUARANTEED STUDENT LOANS (ASSET 19)

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
Budget Authority	350	350	350	350	350	1,750
Outlays	175	350	350	350	350	1,575

PPSSCC Proposal. The commission proposes doubling the present origination fee of 5 percent on Guaranteed Student Loans (GSLs). The fee is retained by the lender and is a credit against the federal interest subsidy payable on the loan. (GSL borrowers also incur state-imposed fees not considered here.) The annual volume of new GSL lending is projected at $7 billion over the coming five years.

Budgetary Impact. The PPSSCC attributes a three-year revenue gain of $1.6 billion to this proposal. In fact, however, the change would result not in a revenue increase but in an outlay reduction, which the CBO estimates at roughly $1 billion for the same three years. Differences in the assumed loan volume account for the discrepancy. While the commission has projected the budgetary effects on the basis of higher Department of Education estimates of GSL lending volume, the CBO baseline assumes a lower projected level.

Program Impact. An origination fee of any amount reduces the principal available to a student accordingly. The annual borrowing limit for an undergraduate student is $2,500; for a graduate student the limit is $5,000. Though students borrowing less than the annual limit could probably borrow sufficiently more to meet the costs of a higher origination fee, those already at the limit--1.5 million students--would see a real reduction in the money available to them for education. For GSL undergraduate students already borrowing the maximum amount, the 10 percent fee would reduce the money available to them for school by $125; for graduate students, the reduction would be $250.

Implementation. The 5 percent origination fee was established in 1981 under the Omnibus Budget Reconciliation Act, and it went into effect within weeks of the legislation's passage. Any increase in the fee would require legislative action, but experience suggests the change could be implemented quickly. The Administration proposed such an increase in the fee in fiscal year 1983 and a similar but more limited increase in 1984. Both were rejected by the Congress.

References. PPSSCC, Task Force Report on Financial Asset Management, pp. 172-74.

ELIMINATE FEDERAL SUBSIDY FOR RAILROAD RETIREMENT WINDFALL BENEFITS (BANK 12)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	405	380	360	340	320	1,805
Outlays	405	380	360	340	320	1,805
Revenue Effect	-55	-52	-50	-47	-44	-248
Net Budget Effect	350	328	310	293	276	1,557

PPSSCC Proposal. Under current law, certain retirees from railroad employement who also qualify for Social Security retirement benefits have access to dual, or "windfall," retirement benefits. These were first authorized in 1974 to prevent a reduction in total benefits for workers covered by both the federally operated Railroad Retirement System (RRS) and Social Security before the two were fully coordinated. Since 1981, outlays for these benefit payments have been limited to Congressionally appropriated amounts paid from the general fund of the U.S. Treasury. In each year since passage of the Railroad Retirement Amendments of 1981, the Administration's budget has proposed limiting this appropriation to $350 million, but the Congress has increased the amount each year. The PPSSCC proposes eliminating Congressional appropriations for such windfall benefits.

The PPSSCC further suggests that funding for dual benefits could come from the RRS trust fund, as negotiated by labor and management. Before 1981, actual benefits from this subsidy were higher than the amounts appropriated, with the difference coming from the RRS trust fund. When the trust fund experienced financial difficulties, outlays for windfall payments were capped at the appropriated amount with no further trust fund financing. The Railroad Retirement Solvency Act of 1983 authorized repayment of $2 billion to the trust fund to compensate for these past windfall payments.

The PPSSCC also recommends that payments should continue if total benefits fall below "adequate levels," and that the Social Security and RRS components of benefits be separated.

Budgetary Impact. Estimated savings for this recommendation would equal the amount estimated by the RRS actuaries to fund the benefit fully. Revenues would be reduced by the amount of the taxes currently collected on the payment of these benefits. CBO estimates slightly lower outlay savings than the PPSSCC, presumably because CBO incorporates an updated estimate of the windfall benefit, which is gradually declining. CBO makes no assumption about the amounts needed to prevent recipients' annuities from falling below "adequate benefit levels," since the concept is ambiguous.

If windfall benefits were negotiated by railroad labor and management, and paid for from the trust funds, the federal savings shown would be reduced by the amount negotiated, since payments from the RRS trust fund are an expenditure from the federal budget. Although the 1983 act improved the condition of the fund's balance, additional outlays equal to the total windfall benefit would weaken the fund's status over time.

No CBO estimate of costs or savings is shown for the proposal to separate the Social Security and RRS components of benefits. Any costs or savings would be small, with administrative savings roughly equal to implementation costs.

Program Impact. Eliminating the windfall benefit would affect approximately 370,000 annuitants and survivors, reducing their annuities by an average of $1,100 a year in the first year of implementation.

Implementation. To eliminate the dual benefit, elimination of the annual appropriation would be needed. To pay it from the trust fund, new legislation would be required. The Congress had limited the appropriation for a short period in 1982, forcing a reduction in benefits. A supplemental appropriation subsequently restored most of this benefit.

Additional Comments. GAO has not recommended that the portion of the RRS that is equivalent to Social Security benefits be moved under Social Security, but it agrees that such a change appears logical and worthwhile. GAO has suggested that at least part of the windfall payments made through federal appropriations could be eliminated.

References. PPSSCC, Task Force Report on Board/Commissions--Banking, pp. 84-92. GAO, Railroad Retirement Board Calculations of

Annual Appropriations Needed to Phase Out Windfall Benefits (HRD-77-33), January 11, 1979). GAO, Keeping the Railroad Retirement Program on Track--Government and Railroads Should Clarify Roles and Responsibilities (HRD-81-27, March 9, 1981). GAO, Relationships of Dual Benefit Windfall Payments to Total Railroad Retirement Benefits (HRD-82-97), July 12, 1982). CBO, The Railroad Retirement System: Benefits and Financing (December 1981).

TIGHTEN SOCIAL SECURITY DISABILITY CLAIMS PROCESS
(SSA-10)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	65	130	210	225	280	910
Outlays	360	780	1,250	1,660	2,070	6,120

PPSSCC Proposal. The PPSSCC recommends changing the appeal process for persons denied Disability Insurance (DI) and Supplemental Security Income (SSI) disability benefits. Currently, an individual denied benefits can ask for reconsideration of that decision at the state disability service (DDS) office. Further appeals can be made sequentially to an administrative law judge (ALJ), to the Appeals Council in the Social Security Administration (SSA), and then to the federal district courts. The claimant can submit new evidence at reconsideration and at the ALJ hearing. The reconsideration decision is based on the same criteria as the initial decision, except that the claimant's file is updated and the claim is decided by a different set of claims examiners. Claimants can appear with legal counsel at the ALJ hearing.

The PPSSCC recommends that the process be changed so that only claimants who want to submit new evidence would file for reconsideration. Others would appeal the initial decision directly to the ALJ. Under the proposed system, the original claims examiners would review the new evidence and make the reconsideration decision. The ALJ decision would be based on the evidence presented at the initial and reconsideration levels. The claimant would have no opportunity to appear before the ALJ. The PPSSCC expects that these changes would decrease benefits paid for several reasons. Staff currently working on reconsideration could be reassigned, thus allowing more continuing disability reviews (CDRs) to be processed and more individuals to be terminated from the rolls. Forcing the ALJs to make decisions on a closed record would decrease the number of allowances at that level. Eliminating claimants' appeals to the Appeals Council would also decrease the number of individuals receiving benefit payments.

The PPSSCC also recommends that SSA follow a policy of acquiescence to the decisions of the federal district courts, whereby the decisions of the court would be adopted in the circuit in which they are made and then nationwide if two or more courts of appeal agree with the decision. SSA's present policy is not to recognize, as binding judicial precedent, decisions of courts other than the Supreme Court. This noncompliance with circuit court proceedings has created confusion and increased workloads. There is no way to estimate the effect of requiring acquiscence on potential beneficiaries because it would depend on the outcome of future court decisions.

Budgetary Impact. CBO estimates that adopting the PPSSCC recommendations would save $360 million in 1985, and the five-year savings would total $6.1 billion. The savings would occur in the Medicare and Medicaid programs as well as in DI and SSI because many individuals receive these health program benefits as a result of receiving disability payments. This estimate is based on a reduction of about 15 percent in new awards annually: 45,000 in DI and 35,000 in SSI. It also assumes a 15 percent reduction in the number of individuals retained on the rolls after a regularly scheduled medical or continuing disability review. The major savings are estimated to result from a decrease in the number of appeals allowed at the ALJ level for lack of a face-to-face hearing and because of the disallowance of new evidence at that level.

This estimate is below the PPSSCC estimate of 223,489 people not awarded benefits each year for several reasons. First, CBO assumes that more individuals will be awarded benefits at reconsideration if the claimants are aware that it is their last chance to submit new evidence. Second, the estimate includes neither savings from additional CDRs nor savings from increased staff productivity and improved methods. Improved processing methods might possibly increase the number of claimants allowed at the initial stage, not decrease them. Also, the PPSSCC estimates are based on an annual reduction in the number of people allowed to receive disability benefits and a 12-month benefit amount. Since people become entitled to disability benefits at a steady rate over the year, only a few would receive a full year of benefit payments. The group receiving benefits in the first year could receive, at the most, an average of six months of benefit payments.

Although, the PPSSCC estimate overstates the reduction in the number of people who would receive benefits, the cost estimate understates the cumulative savings which would result from the change in the appeal process. The PPSSCC estimate does not take into consideration the compound affect of annual reductions in the number of people who would be on the rolls under current law. The CBO cost estimate grows rapidly because it assumes that many of those denied benefits each year would have otherwise received benefits in subsequent years. The PPSSCC estimate also does not include savings in the Medicare and Medicaid programs.

Program Impact. This change in the appeal process would effect the number of individuals awarded disability benefits at each level of appeal. The ultimate impact of the change on the number awarded benefits is uncertain and difficult to estimate. If reconsideration were the last step in which the claimant could submit new evidence, more evidence would likely be submitted at this point and awards at this level would probably increase. Based on evidence in the Bellmon Report, however, closing the record and eliminating the nonadversarial hearing at the ALJ level would reduce the number of awards at this stage. Also, the change in the appeal process might affect the number of individuals deciding to appeal benefit decisions. The most likely outcome of the changes would be to decrease the number of new beneficiaries.

Although it is unlikely that the change in the appeal process would decrease the workload at the DDS level, reassigning DDS staff to process more CDRs would have little effect on the number of individuals terminated from the disability rolls since the majority of those scheduled to be reviewed for the first time have already been reviewed or are scheduled for a review under current policy. It is very unlikely that many beneficiaries whose benefits have been continued after one review would be terminated after a later review.

Implementation. This proposal would require legislation by the Congress and administrative action by SSA. Limiting the role of ALJs to appellate reviews and denying the claimant an oral hearing could violate the rules of the present Administrative Procedures Act. Changing the appeal process would require some legislative change. Other recommendations, such as requiring a more complete investigation of the claimant's medical and vocational history, would require action by the Secretary of Health and Human Services.

Most of these recommendations would be hard to implement because the Congress and much of the public believe that SSA may have already gone too far in tightening up its disability criteria. Current legislation in the Congress regarding DI has been targeted toward restoring benefits for a group of individuals whose benefits were or would be terminated under current SSA policy.

Additional Comments. GAO supports some of the recommendations of the PPSSCC. Among those supported are the adoption of a policy of acquiescence to the decisions of the federal courts, provided SSA has the discretion to make exceptions in unusual circumstances. GAO has recommended in testimony adoption of the proposal for a more complete investigation of a claimant's medical and vocational history. GAO does not support those proposals that would change the de novo nature of the appeal process. In particular, GAO does not believe that the ALJs should be prohibited from accepting new evidence, because this would be in direct conflict with the requirements and practices of the Administrative Procedures Act.

References. PPSSCC, Task Force Report on the Department of Health and Human Services, Social Security Administration pp. 164-190. GAO, Testimony before the Senate Committee on Governmental Affairs, Subcommittee on Oversight of Government Management (May 24, 1982). GAO, Testimony before the Senate Committee on Finance (August 18, 1982). GAO, Testimony before the Senate Special Committee on Aging (April 7, 1983). GAO, Testimony before the House Select Committee on Aging (May 20, 1983). GAO, Testimony before the House Committee on Ways and Means, Subcommittee on Social Security (June 30, 1983). "The Bellmon Report," Social Security Bulletin (May 1982).

REDUCE THE DEFICIT FOR THE PENSION BENEFIT GUARANTY CORPORATION (BANK 1, 2, 3, 4, 5)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	0	0	0	0	0	0
Outlays	700	760	820	890	970	4,140

PPSSCC Proposals. The Pension Benefit Guaranty Corporation (PBGC), a federal entity established in 1974, ensures that all subscribers to private pension plans can, upon retirement, receive annuity benefits even if their plans terminate or are otherwise unable to pay benefits. The PBGC's subscribers are private firms, which support the corporation through premium payments. Although the Congress explicitly intends that the PBGC be self financing, the corporation's premium rates have not been set high enough to finance insurance claims and administrative costs. As a result, the PBGC has been operating at a deficit since its inception. The PPSSCC has introduced five proposals to close the current deficit and correct certain perceived inequities in the rate structure.

To increase revenues, the PPSSCC recommends an increase in the single-employer premium rate from $2.60 to $6.00 per participant, the level thought necessary to fund the PBGC's deficit and cover its estimated net claims. The PPSSCC further recommends that the PBGC increase its interest earnings by shortening the seven-month delay, before collection of the first premium; the PPSSCC believes that employers' familiarity with the program makes this possible. The commission also proposes closing loopholes in the Employee Retirement Income Security Act (ERISA) to reduce the PBGC's liability. Finally, increased contracting for services, such as accounting control and premium collection, would allow the PBGC to reduce its overhead costs.

Under the present system, all plans pay the same premium rate, regardless of their funding levels or the risks they pose of future PBGC claims. As the rate increases, the present structure becomes increasingly more inequitable for well-funded, low-risk plans. The PPSSCC recommends that the PBGC consider annual assessments on sponsors of underfunded plans at a rate of 5 percent of their unfunded liability. The PPSSCC further recommends that the PBGC develop a risk-related premium structure that is equitable for premium payers and that provides incentives for sponsors to maintain adequate funding levels.

Budgetary Impact. The CBO estimate includes savings from all the PPSSCC proposals except the risk-related premium, for which details were not specific enough to allow estimating. According to the PBGC, the number of plan participants should average about 32 million over the next four years. Thus, a $6.00 rate could generate $192 million a year, compared to the $83.2 million currently generated--a difference of $108.8 million a year and $326.4 million over a three-year period. This estimate is very close to the PPSSCC's estimated revenue increase, which totals $324.1 million over a three-year period. The GAO also estimates that a $6.00 rate could, in 15 years, retire the program's September 30, 1982, deficit of $333 million.

The PPSSCC savings estimates for accelerating the premium collection schedule and increasing the use of contracting for financial services appear to be overstated. The PPSSCC's $54.1 million estimated three-year savings for accelerated collections seems unrealistic, because the PPSSCC assumes that accelerated collections would recur in the same magnitude each year; in fact, however, the accelerated collection is a one-time occurrence. As a result, CBO estimates that the additional interest earned by the PBGC should be about $20.1 million, rather than $54.1 million.

The PPSSCC's estimated savings from the increased use of contracting with the private insurance industry--$132.4 million over three years--also appear overstated. The PPSSCC estimate assumes that all of the PBGC's assets and liabilities could be transferred to private contractors. Since the corporation is currently operating at a deficit, those liabilities in excess of assets obviously could not be transferred to contractors. Furthermore, the likelihood of the industry's absorbing the PBCG's total liabilities in a single year is doubtful. A gradual phase-in would further reduce savings.

Although the true impact cannot be determined, as the results would accumulate over several years, GAO believes that the PPSSCC's savings estimate for closing the loopholes in ERISA is within reason.

The PPSSCC estimates that, if pension plans were required to pay special assessments of 5 percent of their estimated 1980 unfunded liabilities, the PBGC would collect an additional $3.2 billion in revenues over three years. The PPSSCC savings appear excessive because they are not related to the insurance programs' premium needs from risks of exposure to claims. The PBGC currently estimates its annual premium needs at $190 million over the next five years. Also, since unfunded liabilities are extremely sensitive to changes in interest rates and because interest rate assumptions used to value liabilities have increased since 1980, the PPSSCC savings are overstated. The PBGC's most recent estimate of its unfunded liabilities is $11.7 billion, much lower than the 1980 estimate of $19.3 billion on which PPSSCC based its savings estimate. According to CBO's estimate the PBGC would collect $1.9 billion over a comparable three-year period. GAO also points out that the PPSSCC's estimated revenue increase could be offset by a decrease in federal taxes paid by plan sponsors as a result of increased tax-deductible contributions induced by a special assessment. Net revenues are further reduced if the imposition of the special assessment on financially weak plans resulted in an increase in plan terminations.

The risk-related premium rate structure proposed by the PPSSCC would result in a different allocation of premium revenue among premium payers, but it would not necessarily increase the total premium revenue collected.

Program Impact. GAO believes that the PPSSCC recommendation for a premium rate increase has merit, because the $6.00 rate represents the lowest level needed to cover the program's net claims and administrative costs and to retire the deficit on a schedule that would minimize the burden on future premium payers. The Administration's 1985 budget proposes a single employer plan premium increase to $7.00 per participant. GAO also believes that closing the loopholes in ERISA could reduce the PBGC's future premium needs.

Though the 5 percent special assessment proposal could encourage sponsors to improve the funding of their plans, such assessments could also result in a substantial burden on financially weak sponsors. Since new plans generally start with a large unfunded liability, newer sponsors would probably be more burdened than older ones, which have had time to pay off their unfunded liabilities. The GAO is concerned about a possible negative effect on the growth and operating practices of defined benefit plans. Participants could also be adversely affected if benefit increases were restricted to avoid increases in unfunded liabilities. Since, in GAO's opinion, the amount of revenue that would be generated by a 5 percent assessment far exceeds the PBGC's requirements over the next five years, GAO believes that any special assessment established should be at a lower rate more closely aligned to PBGC's requirements.

The GAO believes the implementation of PPSSCC's recommendation for a variable rate structure that considers some elements of exposure and risk would possibly provide a more equitable allocation of program costs, in addition to increased incentives to improve plan funding.

Insurance claims and the PBGC's administrative costs are financed primarily by premiums paid by pension plans, and GAO believes an acceleration in the premium collection schedule should only be implemented either to solve a cash flow problem or to save money for premium payers. Because the PBGC does not have a cash flow problem, and additional income earned by PBGC would result in investment income forgone by premium payers, GAO believes that the PPSSCC's proposal has limited usefulness at this time.

GAO believes the PPSSCC's recommendation that PBGC evaluate the use of private insurers has merit, because its implementation could lower the level of premiums needed to pay PBGC's administrative costs and claims on terminated plans.

Implementation. Congressional action would be necessary to enact the special assessment proposal, the variable rate structure proposal, and the premium rate increase. Increased subcontracting and acceleration of the cash flow into PBGC could probably be accomplished through administrative action.

S. 1227, introduced on May 5, 1983, contained a provision that, within two years, the PBGC complete studies of a variable premium rate structure and alternatives for performing some or all of its functions in the private sector. The bill also proposed a flat rate increase to reduce PBGC's deficit pending the results of this study, and it contained provisions designed to close existing loopholes in ERISA. No action was taken on this bill before the Congress recessed in November 1983.

References. PPSSCC, Task Force Report on Boards/Commissions-Banking and Investment, pp. 5-33. GAO, Legislative Changes Needed to Financially Strengthen Single Employer Pension Plan Insurance Program (HRD-84-5, November 14, 1983). GAO, Better Management of Private Pension Plan Data Can Reduce Costs and Improve ERISA Administration (HRD-82-12, October 1981).

ELIMINATE DONATIONS FROM THE COMMODITY CREDIT CORPORATION TO OTHER AGENCIES (AG-22)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	-15	-35	-50	-65	-80	-245
Outlays	-15	-35	-50	-65	-80	-245

NOTE: Negative numbers indicate net budgetary costs.

PPSSCC Proposal. The commission proposes to hold donations by the Commodity Credit Corporation (CCC) to other programs at $728 million, approximately the 1982 level. The CCC would continue to procure commodities--mostly dairy products and grains--through its price support activities and to distribute portions of its inventories to the Food and Nutrition Service, to the Veterans Administration, to penal institutions, and to foreign recipients under the Public Law 480 food aid programs. At present, the CCC receives reimbursement from some of these agencies for only a portion of these distributions. Under the PPSSCC plan, the CCC would release no stocks to other agencies without reimbursement obtained through the Congressional appropriations process.

Budgetary Impact. The commission estimates that CCC donations would be halved by its proposals, for a net reduction in three-year outlays of roughly $1.2 billion. Though requiring agencies to reimburse the CCC for donations might enhance the agencies' accountability to the Congress, CBO analysis finds no potential for budgetary savings. Any reimbursement to the CCC is merely an intragovernmental transfer, not a reduction in total budget outlays, and federal expenditures for CCC purchases through price support activities will still occur. In fact, CBO estimates that outlays would actually increase if this proposal were implemented. Freezing CCC donations at the $728 million level would result in increased inventories and correspondingly greater storage costs, totaling about $245 million over five years.

Program Impact. A donation level held at $728 million would reduce the levels projected in the CBO baseline by 55 percent to 60 percent and would fall 60 percent below the President's 1985 budget estimate. The volume of commodities available for donation to the poor through charitable institutions accordingly would not increase.

Implementation. The Secretary of Agriculture has the authority to institute both the decreased donation level and the recommended reimbursement practice. Agency reimbursements would be subject to appropriations action.

Additional Comments. GAO believes the PPSSCC proposal that agencies be required to reimburse CCC for any surplus commodities received would impove accountability. GAO believes, however, that the Secretary should seek the advice and counsel of appropriate Congressional committees before implementing the recommendation, even though current law gives him authority over the disposition of CCC inventories.

References. PPSSCC, Task Force Report on Financial Asset Management, pp. 107-9.

REQUIRE PROSPECTIVE PAYMENT SYSTEMS FOR MEDICAID HOSPITAL REIMBURSEMENT (LISAB-8)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	20	30	40	45	50	185
Outlays	20	30	40	45	50	185

PPSSCC Proposals. Expenditures for in-patient hospital services and long-term care represent 73.2 percent of total vendor payments under Medicaid. The PPSSCC proposals attempt to reduce costs in both of these areas but in very different ways. To reduce the growth on in-patient hospital expenditures the PPSSCC recommends the following:

- o Require all states to replace retrospective (cost-based reimbursement systems with prospective (negotiated or fixed-rate) payment systems.

- o Encourage states to implement hospital rate-setting programs that would apply to all payers--both government and private insurers.

- o Create competitive forces in the private and public health care sectors.

To lower expenditures for long-term care PPSSCC recommends:

- o Require prescreening and case management as a condition of participation in community-based service programs.

Budgetary Impact. The requirement that all states adopt prospective payment systems would affect the 26 states that reimburse for in-patient hospital services using retrospective reimbursement methods. These 26 states account for only 29 percent of in-patient hospital expenditures under Medicaid. The potential savings from prospective reimbursement methods also are limited because the inflation rate is expected to be lower during 1985-1989 than in the previous decade. Therefore, CBO estimates that the annual savings from the proposal are likely to average roughly $40 million rather than the $160 million estimated by the PPSSCC. Savings during the five-year period 1985-1989 would total $185 million. (Since the PPSSCC views prospective payment systems as a temporary emergency measure to be replaced by a competitive system (MEDIC-1) in 1987, the $135 million savings during 1987-1989 due to prospective systems would not be realized. Thus, total savings for this proposal would be $50 million.) Since the PPSSCC did not provide specific proposals or cost estimates for the encouragement of all-payer systems or the creation of competitive forces in the health care sector, no savings from these initiatives are included in the CBO estimate.

Prescreening and case management would not result in cost savings unless they were combined with an expansion in community-based services provided under Medicaid and a limit on expenditures for community-based services to the level that would have resulted with institutional care. Since the PPSSCC did not include either additional services or controls in their recommendations, no savings are included in the above table. This compares with a PPSSCC estimated savings of $145 million during the first year and $540.6 million during a three-year period.

Program Impact. The requirement that all states use prospective reimbursement methods for all Medicaid hospitalization would have minimal impact because a large majority of beneficiaries live in states that already have prospective payment systems. Moreover, development of alternative reimbursement methods might be administratively burdensome in the small states affected by this PPSSCC recommendation. The program impact of the three less-specific recommendations cannot be assessed.

Implementation. Legislation would be necessary to require that all states adopt prospective payment systems for in-patient hospital reimbursement and that all states require prescreening and case management as a condition of participation in community-based service programs. Encouragement of all-payer systems and creation of competitive forces in the health care sector might or might not require legislation depending on the specific methods proposed.

References. PPSSCC, Task Force Report on Low Income Standards and Benefits, pp. 90-98. PPSSCC, Task Force Report on Management Office Selected Issues, vol. IX, Federal Health Care Costs, pp. 1-65. GAO, Medicaid and Nursing Home Care: Cost Increases Are Creating Problems for the States and the Elderly (PE-84-1, October 21, 1983). GAO, The Elderly Should Benefit from Expanded Home Health Care But Increasing These Services Will Not Insure Cost Reductions (IPE-83-1), December 7, 1982). GAO, Comments on a Health Care Financing Administration Regional Office Report on New Jersey Diagnostic Related Group Prospective Reimbursement Experiment (HRD-83-63, June 15, 1983). GAO, A Primer on Competitive Strategies for Containing Health Care Costs (HRD-82-92, September 24, 1982).

IMPROVE ENFORCEMENT OF SOCIAL SECURITY EARNINGS LIMIT (SSA-6)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

PPSSCC Proposals. The PPSSCC has proposed tightening the Social Security Administration's (SSA's) enforcement of the current-law earnings test provisions so that overpayments are reduced. The earnings test reduces or eliminates Social Security retirement and disability benefits for workers who earn above a specified amount. For retired workers in 1984, the amount is $5,160 for those aged 62 to 64, and $6,960 for those 65 to 69. Benefits above that amount are reduced $1 for every $2 in earnings. The reductions are withheld from benefits each year on the basis of annual reports filed by workers about their expected earnings. Benefits are adjusted yearly in a series of automatic data processing steps using actual earnings data.

The PPSSCC recommends that all retired workers aged 62 to 69 and all disabled workers be notified annually of the earnings test requirement and that they estimate their earnings yearly. In addition, PPSSCC recommends stepped-up enforcement in the collection of overpayments, along with the collection of interest on the overpayments. These steps would enable SSA to begin to reduce benefits for excess earnings earlier, accelerate cash flow, and add interest income to Social Security trust funds.

Budgetary Impact. The commission estimates three-year outlay savings of $3 billion and $1 billion in revenue gains from its proposals. CBO, however, estimates that little or no savings would result from these recommendations over the 1985-1989 period, although savings could occur in future years. Recent administrative actions in both the retirement (OASI) and disability (DI) programs have greatly reduced the overpayment error rates reported in the PPSSCC study. In addition, a modernized computer system would be needed to implement these proposals, and SSA is not scheduled to complete a new system until 1988.

By the end of 1984, both the Social Security Administration's enforcement efforts and the posting of earnings records should be up to date, negating the three-year lag in reporting and enforcement that existed when the PPSSCC conducted its survey. In addition, the error rates noted in the PPSSCC survey included overpayments through age 72, while current law restricts earnings only through age 70. The error rates are likely to be negligible in the future, as long as earnings postings are kept current. This up-to-date status of enforcement and of the earnings base would, in addition, act to negate any added savings from speeding the recovery period for overpayments. Also, SSA probably could not accelerate its enforcement operations by as much as one year--as PPSSCC proposes--under the present annual wage reporting system. Moreover, the DI rolls have been reviewed in the past three years, and many of those with earnings who should not be receiving benefits have been dropped. It is unlikely that significant future savings can be achieved in this program.

The determination of any remaining errors and collection of interest on future overpayments can only be implemented once SSA's modernized computer system becomes available. The PPSSCC report points this out, but also states that there is doubt the system can be fully operational in the time planned. Thus, the data processing required to implement the proposals will not be available until 1989 at the earliest. Since a modernized computer system will allow SSA to calculate and compute interest on any remaining overpayment, some savings could accrue after that date.

Program Impact. In 1982, approximately 450,000 retired workers had benefits withheld as the result of earnings. The number of disabled workers with overpayments of benefits resulting from excessive earnings is not known.

Implementation. The increased enforcement requires an "available and quality" automatic data processing system. SSA's system is currently being updated, with a scheduled completion by 1988. The PPSSCC doubts, however, that SSA will meet this deadline. On the other hand, it stresses the importance of the computer system in order to implement many of the enforcement recommendations.

Reference. PPSSCC, Task Force Report on the Department of Health and Human Services, Social Security Administration, pp. 114-33.

COORDINATE AND AUTOMATE STATE WELFARE DATA
(LISAB-5)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	*	*	25	25	25	75
Outlays	*	*	25	25	25	75

*Less than $5 million in savings or costs.

PPSSCC Proposals. Computerized data and management systems for assistance (welfare) programs vary considerably among the states in both extent and sophistication. With considerable financial support from the federal government, states have made much progress in automating the Aid to Families with Dependent Children (AFDC), Medicaid, and Food Stamp programs in recent years. Federal contributions have accounted for 90 percent, 90 percent, and 75 percent, respectively, of automation efforts in these three programs. The PPSSCC recommendations would affect automation only marginally--by accelerating present efforts to coordinate the gathering of data and issuing of regulations among programs, by standardizing recipient forms among programs, and by providing as a model the Statewide Integrated Eligibility Determination and Recordkeeping System (SIEDRS).

Budgetary Impact. On the basis of evidence from one state--Wisconsin--the PPSSCC estimates total three-year savings of about $1.5 billion from automating and coordinating welfare data and administration. But the PPSSCC recommendations would not require the states to speed up automation or adopt any particular automated system.

Because the recommendations would affect automation only marginally, savings would be much less than those associated with full automation. For example, if standardizing forms and coordinating data accounted for 10 percent of the full savings from automation in Wisconsin, annual savings on a nationwide basis would be only $50 million. Even this estimate is probably too high; it includes savings from reduced error rates, which might accrue only to state and local governments rather than to the federal government because of error rate sanctions under current law. (This is discussed more fully under the preceding item--LISAB-4). Moreover, it would take at least a year to implement these recommendations, and for a year or so thereafter there could be added administrative costs associated with changing current automated systems--for example, in adjusting to the new forms. Hence, the CBO savings estimate of $25 million a year beginning in 1987 represents only an order of magnitude.

Program Impact. The PPSSCC recommendations would enhance the integration and automation of information on welfare program applicants and recipients. They would reduce administrative costs, and they might also reduce program error rates slightly. State and local governments would share equally with the federal government in any savings. To whatever extent error rates were reduced, they would also realize some additional savings.

Implementation. The Departments of Agriculture and Health and Human Services could implement these recommendations by administrative actions or by regulatory actions in coordination with the Office of Management and Budget.

Additional Comments. GAO believes that PPSSCC's first two recommendations--coordinating data and regulations and standardizing forms--have merit and can be implemented. GAO dismisses the third recommendation--providing SIEDRS as a model--because SIEDRS has yet to be used or validated.

References. PPSSCC, Task Force Report on Low Income Standards and Benefits, pp. 56-66. GAO, Emphasis on Government's Efforts to Standardize Data Elements and Codes for Computer Systems (B-115369, May 1974). GAO, Concerns About HHS' Ability to Effectively Implement Incentive Funding for State Information Systems in the AFDC Program (HRD-81-119, June 1981).

IMPROVE INCOME VERIFICATION IN MEANS-TESTED PROGRAMS (LISAB-4)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	-5	350	375	395	425	1,540
Outlays	-31	340	405	425	455	1,594

NOTE: Negative figures indicate budgetary costs.

PPSSCC Proposals. The many means-tested assistance programs use various methods to verify incomes reported by current and potential recipients. For example, in the Food Stamp and Aid to Families with Dependent Children (AFDC) programs, wage data from outside sources must be used to verify wages reported by recipients. And in the Food Stamp, AFDC, and Supplemental Security Income (SSI) programs, as well as in some states' Medicaid programs, recipients must furnish their Social Security numbers, allowing verification across programs and record-keeping systems. The PPSSCC recommendations would make available additional data for verifying incomes and resources and would otherwise strengthen verification procedures. They would:

- Require all states to collect quarterly data on wages (ten states currently do not do so), and permit the use of these data in the Unemployment Insurance (UI), AFDC, Food Stamp, and Child Support Enforcement programs.

- Amend the Tax Reform Act of 1976 to permit the disclosure of data on wages by the Social Security Administration (SSA) and data on unearned income by the Internal Revenue Service (IRS).

- Require recipients to submit their Social Security numbers and income tax returns as a condition of eligibility.

- "Standardize and target" the use of available data in verification.

- Require the Department of Housing and Urban Development (HUD) to use all available wage data in its annual review of housing managers in Section 8 programs. Related recommendations are included in the item entitled "Improve Verification of Applicants' Eligibility for Housing Subsidies" (HUD-5) and are discussed there.

Budgetary Impact. CBO believes that these recommendations would yield some federal savings, but how much is uncertain. CBO's estimate includes savings in the UI, SSI, Food Stamp, and Medicaid programs. Savings are excluded for AFDC and are lowered for the Food Stamp program, because an assumed full imposition of fiscal sanctions for overpayments by the states eliminates or reduces federal liability.

In UI, the use of quarterly wage data to verify employment status and wages would save about $30 million annually after initial costs of $50 million, as estimated by the Department of Labor. In SSI, use of the IRS files on unearned income to verify resources would save about $100 million in 1986, rising to $120 million in 1989. A feasibility study conducted by the IRS and SSA in 1978 estimated that annual savings of $61 million would result from the checking of unearned income reported to the IRS; this estimate was increased by the rise in SSI benefit payments since then. In the Food Stamp program, use of IRS files to verify resources would save an estimated $40 million annually; the estimate assumes that overpayments relating to misreporting of resources--about 20 percent of client-caused errors--would be cut in half. A portion of these reduced overpayments would lower federal costs, but a portion would also lower fiscal sanctions imposed on the states. In both the SSI and Food Stamp programs, savings are shown only for the recommendation related to use of IRS unearned income records, because other records are currently used to verify incomes in these programs.

In Medicaid, the use of IRS unearned income data to verify resources is estimated to save $210 million in 1986, rising to $265 million in 1989. This estimate is based on the joint IRS and SSA feasibility study noted above, in which 2.5 percent of SSI beneficiaries were estimated to be ineligible because their assets were above program limits ($2,250 for a couple or $1,500 for a single person). This ineligibility rate is applied to aged Medicaid beneficiaries in receipt of cash payments, while the rate applied to other Medicaid beneficiaries is reduced by one-half because the non-aged are assumed to have lower asset levels. Resulting savings are reduced to allow for overpayment recovery rates of about 50 percent.

In AFDC, no savings are included because current law requires the imposition of fiscal sanctions on the states for the full amount of erroneous payments when error rates exceed 3 percent. Even if the PPSSCC recommendations eliminated errors caused by clients' misreporting of income and assets, no savings would accrue to the federal government. For example, the latest reported error rates in AFDC are 7.0 percent (April-

September 1981); if errors caused by income and resource misreporting were reduced to zero, the error rate would fall to only 3.5 percent because such errors account for about half of total errors. Yet 3.5 percent is still above the required error rate of 3 percent. Only if the fiscal sanctions were not imposed in full would there be significant federal savings.

CBO's estimate of annual savings is 15 percent to 50 percent of the range of savings estimated by PPSSCC--$667 million to $2,222 million each year. The PPSSCC estimates, based on an assumed 25 to 75 percent reduction in all erroneous payments, recognized neither that existing fiscal sanctions would reduce federal government savings nor that clients' errors attributable to income and resource misreporting are only one-half of total errors. Moreover, current law already requires considerable income verification--except for medically needy recipients of Medicaid--limiting any added savings from the PPSSCC recommendations. Administrative costs associated with use of the income records could also be significant--particularly where recipient records are not computerized. On the other hand, requiring applicants to provide their income tax returns as a condition of eligibility could dissuade them from applying and result in savings that are not in CBO's estimate. Further, use of the IRS file to verify resources might add to estimates of overpayments made in the quality control programs.

Program Impact. The PPSSCC recommendations would increase the targeting of benefits on intended beneficiaries by enabling a more accurate assessment of beneficiaries' incomes and resources. However, these proposals would entail a loss of privacy if appropriate safeguards to protect privacy were not implemented.

Expenditures of state and local governments would be reduced if these recommendations were implemented. In a 1982 report proposing similar recommendations, the GAO estimated that federal government expenditures for overpayments resulting from misreporting of income and resources in the AFDC and Medicaid programs (both partly financed by states and localities) were $314 million in fiscal year 1982. If these recommendations reduced overpayments by 25 percent, savings to state and local governments, exclusive of any administrative costs, would be about $100 million a year (including savings in error rate sanctions in AFDC); if they reduced overpayments by 10 percent, savings would be about $40 million a year.

Implementation. These recommendations would require both legislative and administrative action. They extend actions taken by the Congress in recent years to improve income verification, such as requirements in the AFDC and Food Stamp programs to verify wages.

Additional Comments. GAO believes that these PPSSCC recommendations have considerable merit and are feasible to implement, with two qualifications. First, GAO is concerned about income tax returns being required as a condition of eligibility (except for the HUD Section 8 program) because of the risks of improper disclosure and of undermining the voluntary nature of the income tax system. Moreover, income tax returns are of limited usefulness because they do not reflect current circumstances, which are better represented by quarterly wage data. Second, GAO believes that the PPSSCC recommendation to target verification procedures in means-tested programs should be extended to social insurance and other federal retirement programs. Moreover, GAO questions the appropriateness of federally standardizing the use of available data, both because factors such as income are not defined uniformly among the various programs and because the states' needs for and abilities to use such data vary.

References. PPSSCC, Report on Low Income Standards and Benefits, pp. 46-55. GAO, Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions (HRD-82-9, January 1982). GAO, Testimony before Subcommittee on Oversight of Government Management, Senate Committee on Governmental Affairs (December 16, 1982). GAO, Emphasis Needed on Government's Efforts to Standardize Data Elements and Codes for Computer Systems (B-115369, May 1974).

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REFINE VA RESPONSE TO GUARANTEED LOAN FORECLOSURES (VA-4)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	82	0	54	64	80	280
Outlays	183	75	50	63	78	449

PPSSCC Proposal. When a home loan guaranteed by the Veterans Administration (VA) is foreclosed, the agency has two options for satisfying its obligation to the lender under the guaranty: it can pay off the guaranty--that is, the lender's costs incurred as a result of the loan up to 60 percent of the original principal or $27,500, whichever is less; or it can reimburse all the lender's losses in exchange for title to the securing property, which can then be resold to recover some of the agency's costs. In about 95 percent of all foreclosures on VA-guaranteed loans, the agency selects the latter course of action. Upon deciding to acquire the property securing the defaulted loan, the VA specifies a maximum allowable bid that the lender may enter at the sale of the securing property. Lenders who bid above this amount forfeit the option of conveying the property to the VA in exchange for reimbursement of their losses on account of the loan.

Before January 1983, the VA set the specified bid at the lower of the appraised value of the property or the sum of the lender's losses on account of the loan. In that month, however, new instructions were circulated within the agency requiring that the appraised value be reduced for certain predictable maintenance and resale expenses before the comparison with the lender's losses is made.

The PPSSCC recommends that the VA reduce the appraised value by all costs related to the acquisition and resale of the property--including administrative expenses and interest forgone on the cost of acquisition--to reflect more accurately the value of the property to the agency.

Budgetary Impact. The CBO estimates that, if VA-specified bids more accurately reflected the true net value of acquired properties to the agency, the typical bid would fall from the current level of about 93 percent of the appraised value to about 80 percent of the appraisal. When the VA-specified price was the successful bid at the foreclosure auction, the decrease in the bid amount would not affect VA's obligation to the lender nor the agency's net loss on the transaction. The lower bid, however, could induce third parties to enter competitive bids at the sale. If a third-party bid is successful, VA's obligation to the lender decreases to the sum of the lender's losses reduced by the proceeds of the sale.

The frequency with which third-party acquisitions would occur under this option cannot be precisely determined. The PPSSCC assumes that third parties would acquire all such properties and thereby eliminate all future VA property acquisitions. A number of factors involved in foreclosure auctions, however, tend to discourage third-party participation. In many areas, foreclosure sales are poorly advertised. Sale notices may sometimes be limited to locations within the county courthouse or even to law journals. Furthermore, many localities have stringent payment requirements to be met by bidders at foreclosure auctions. Payment in full is normally required within 30 days of the sale, but in some jurisdictions payment can be required within only 24 hours. Finally, many properties offered for sale at foreclosure auctions are still occupied. Few investors are willing to take on eviction proceedings, no matter how attractive a price they might get on the property involved.

The GAO is currently analyzing a computerized listing of all foreclosure transactions involving VA-guaranteed loans during fiscal year 1983. Third parties were the successful bidders in only about 30 percent of all foreclosure sales at which the successful bid was 80 percent or less of the appraised value. (For all VA foreclosure cases combined, third parties acquired properties only 3.5 percent of the time.) The savings estimate assumes that, if the average VA-specified bid were reduced to approximately 80 percent of the appraisal, third-party bids would be successful in 30 percent of the foreclosure auctions.

It is even more difficult to determine the price that might be bid by a third party. Unless the VA had more than one competitor for the property, there would be no reason for the successful bid to be more than $1 above the VA maximum allowable bid. A third-party acquisition under these circumstances would not significantly affect total VA losses on the property but would lower the agency's initial outlay at the time of the foreclosure sale. Competing third-party bidders, on the other hand, could raise the level of the successful bid to a point at which the agency saved a substantial amount. Such situations are not expected to occur frequently, however, and therefore the CBO assumes that third-party bids would average 110 percent of the VA-specified bid.

The CBO analysis results in an estimated outlay savings of $308 million in the first three years. These savings are slightly higher than the

PPSSCC estimate of $225 million, but they are spread very differently over the three-year period. Also, the CBO estimate reflects the reduction in budget authority and outlays, while the PPSSCC has estimated the reduction in costs.

Program Impact. The effect of this proposal on veterans obtaining guaranteed home loans and on lenders making such loans would be minimal. Borrowers whose VA-guaranteed loans were foreclosed could be affected, however. The proceeds of the foreclosure sale represent the amount by which the borrower's indebtedness is currently considered by the VA to be satisfied by the sale of the securing property. Since a decrease in the VA-specified bid would, in most cases, result in a lower foreclosure-sale price, the remaining indebtedness of many foreclosed mortgagors would be higher than under current practices.

Implementation. This recommendation involves administrative changes only.

Additional Comments. As part of the 1985 budget package, the Administration has announced a number of policy changes involving the VA loan guaranty program. One of these changes would be to stop acquiring properties in the case of all foreclosures of VA-guaranteed loans that occur after March 1, 1984. This change would preclude the PPSSCC recommendation. Although the Administration's policy change is expected to result in larger first-year savings than those estimated for the PPSSCC recommendation, the Administration's action is estimated to increase outlays in 1987-1989 by between $70 million and $100 million a year.

References. PPSSCC, Task Force Report on the Veterans Administration, pp. 40-46. CBO, The Financial Condition of the Loan Guaranty Revolving Fund: Current Status and Future Prospects (forthcoming).

REDUCE ERRORS IN VA CLAIMS PROCESSING (VA-2)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The budgetary impact of the PPSSCC recommendations cannot be estimated with available information.					
Outlays						

PPSSCC Proposals. The PPSSCC proposes that the Veterans Administration (VA) improve its systems and procedures for processing claims for benefits in order to prevent errors, to detect errors before awarding benefits, and to identify and eliminate recurring sources of errors.

Budgetary Impact. The PPSSCC estimated that the VA could save $1.5 billion over three years if the agency doubled the rate at which errors in benefit payments were detected and corrected. The PPSSCC arrived at this estimate by assuming that the agency could double the amount of accounts receivable it currently establishes each year with better error detection. The PPSSCC did not, however, recognize that many accounts receivable (A/Rs) are unrelated to benefit overpayments (such as indebtedness remaining after the foreclosure of a guaranteed home loan) and that the majority of errors that do result in overpayments are not committed by agency personnel and therefore may not be responsive to agency correction efforts. The VA has estimated that, of the $178 million in education A/Rs established during fiscal year 1983, only about 16 percent resulted from processing delays and errors. The VA does not capture the amount of compensation and pension overpayments caused by agency error because no A/R is established. Compensation and pension beneficiaries are not required to return overpayments caused by agency error. Thus, of the nearly $400 million in compensation, pension, and education A/Rs established in 1983, less than $30 million resulted from agency error. The remaining $370 million in overpayments were caused by delays or errors on the part of schools, beneficiaries, or other individuals over whom the agency has no control. The largest savings from improving the error detection rate would likely be from reducing compensation and pension errors. However, without data on the current volume of these errors, it is not possible to determine the potential savings.

Program Impact. The VA has recognized many of the problems discussed in this section of the PPSSCC report and has taken a number of steps in the last few years to improve error detection. Two Inspector General's reports (Project Number 1-AB-003, July 1983; Project Number 3-AB-G99-020, January 1983) have resulted in a number of positive steps to reduce overpayments. Certain PPSSCC suggestions, such as tracking the processing errors that result in compensation and pension overpayments, would most likely result in improved error detection. Other suggestions, such as doing a $3-5 million comprehensive study of causes of errors, might not demonstrate an acceptable cost-benefit ratio. Still others, such as delaying awards until all beneficiary-supplied information has been verified, might cause substantial delays in the receipt of benefit payments by beneficiaries.

Implementation. Although an appropriation may be needed to finance the $3-5 million study recommended by the PPSSCC, the other proposals could most likely be implemented through administrative action.

References. PPSSCC, Task Force Report on the Veterans Administration, pp. 21-29. GAO, Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions (HRD-82-9, January 1982). GAO, Veterans Administration's Practices for Allowing Educational Benefit Payments for Courses Not Successfully Completed (HRD-83-47, March 1983). GAO, Overpayments of Education Benefits Could Be Reduced for Veterans Enrolled in Non-College Degree Courses (HRD-81-154, September 1981). GAO, Further Actions Needed to Resolve VA's Educational Assistance Overpayment Problem (HRD-78-45, February 1978). GAO, Educational Assistance Overpayments, a Billion Dollar Problem--A Look at the Causes, Solutions, and Collection Efforts (MWD-76-109, March 1976).

CHAPTER IV. NONDEFENSE DISCRETIONARY SPENDING AND OFFSETTING RECEIPTS

The PPSSCC has made numerous recommendations affecting nondefense discretionary spending--a category that encompasses areas as widely varying as federal highway assistance, health care for veterans, agricultural loans, research and development spending, and the day-to-day operations of most arms of the federal government. 1/ Other proposals would affect offsetting receipts--for example, income from the sale of government-owned natural resources--that are subtracted from spending in calculating net federal outlays. CBO and GAO have reviewed 30 of the commission's recommendations in these areas, and CBO was able to prepare budget impact estimates for 24 of them. CBO estimates that these two dozen proposals would produce outlay savings of more than $60 billion over the 1985-1989 period, with 60 percent of that total appearing in "off budget" accounts. Total savings that could be achieved by implementing all of the changes simultaneously are difficult to calculate, however, because of overlaps and interactions among the proposals.

The PPSSCC recommendations in these areas fall into four general categories: modifying loan programs and altering federal debt-collection practices; modifying spending programs; increasing receipts from the sale of natural resources or federally provided services; and making more efficient use of government funds and general management improvements. 2/

MODIFYING LOAN PROGRAMS AND ALTERING FEDERAL DEBT-COLLECTION PRACTICES

CBO and GAO reviewed three proposals to modify federal direct loan programs and five recommendations to alter debt-collection or other loan-management practices.

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1. Programs are considered discretionary if the law establishes no entitlement to benefits from them. The Congress sets spending levels through the appropriations process--by establishing budget authority, loan limits, expenditure limits, or obligation ceilings.

2. Management savings associated with reductions in federal personnel costs are discussed in Chapter V.

Modifying Loan Programs

By far the largest five-year savings in this group--and in the entire nondefense discretionary spending area--would result from the proposal to replace certain direct loan programs with loan guarantees. The PPSSCC would convert the direct loan programs of the Farmers Home Administration and the major business loan programs of the Small Business Administration into guaranteed loan programs, with the government guaranteeing no more than 75 percent of the principal amount. This would transfer more responsibilities and risk to the private sector and encourage more careful selection of loan recipients. On the other hand, such a shift would increase borrowers' costs in those programs that currently have subsidized interest rates, thus reducing the programs' ability to serve households and businesses with limited financial resources.

CBO estimates that this change would reduce total on- and off-budget outlays by more than $40 billion over the 1985-1989 period--largely because loan disbursements averaging about $9 billion per year would be forgone. Long-term savings would be appreciably less, however, because the federal government would also forgo the repayments, which currently stretch out over periods as long as 50 years. The PPSSCC estimates that long-term, steady-state savings from reductions in interest subsidies, processing costs, default payments, and interest costs would total about $1.9 billion over a three-year period. CBO has not developed an equivalent estimate.

Two related proposals would make other changes in loan programs. The more sweeping change would raise interest rates on 13 programs ranging from Rural Electrification Administration loans and reduced-interest residential mortgages to loans made to developing nations by the Agency for International Development. CBO estimates that raising interest rates to the levels specified by the commission would reduce net outlays by $1.4 billion over the 1985-1989 period. As with the previous proposal, however, this change would reduce access to credit for the most needy borrowers. The PPSSCC also recommends consolidating several student loan programs into the existing Guaranteed Student Loan (GSL) program--a change that CBO estimates would reduce net federal outlays by about $2 billion over the 1985-1989 period. 3/

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3. Other PPSSCC proposals affecting the GSL program are described in Chapter III.

TABLE IV-1. CBO ESTIMATES OF OUTLAY SAVINGS FROM PPSSCC PROPOSALS TO MODIFY LOAN PROGRAMS OR ALTER DEBT-COLLECTION PRACTICES (By fiscal year, in billions of dollars)

Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Change
MODIFY LOAN PROGRAMS						
Replace direct loan programs with loan guarantees						
On-budget	*	*	0.1	0.5	0.8	1.4
Off-budget	6.7	8.3	8.3	8.2	7.6	39.0
Raise interest rates on government loans	*	0.1	0.2	0.4	0.6	1.4
Consolidate the Department of Education's student loan programs	0.3	0.5	0.4	0.4	0.4	2.0
ALTER DEBT-COLLECTION PRACTICES AND PROGRAM MANAGEMENT						
Use IRS refund offsets to increase collection of delinquent debts	0.2	0.3	0.4	0.6	0.9	2.4
Increase debt collection through outside efforts	0	0	0	0	0	0
Charge interest and penalties on delinquent debt	0	0	0	0	0	0
Apply market practices to direct federal lending	0.2	0.2	0.2	0.2	0.2	0.9
Improve credit processing and federal debt-collection management	a/	a/	a/	a/	a/	a/
On-budget total b/	0.7	0.9	1.3	2.1	2.9	8.1
Off-budget	6.7	8.3	8.3	8.2	7.6	39.0

SOURCE: Congressional Budget Office

* Less than $50 million.

a. Lack of available information precludes estimating this proposal.

b. Total savings if all proposals were enacted simultaneously would differ from those shown here because of overlaps among items.

Altering Debt-Collection and Other Loan-Management Practices

Five PPSSCC proposals reviewed by CBO and GAO would leave the basic structure of current federal loan programs intact but alter the practices used by the federal government to manage the programs and to collect monies owed. The most sweeping of them would involve deducting nontax debts owed the government from federal income tax refunds otherwise due to delinquent borrowers. CBO estimates that adopting this practice--which is now used by the federal government only to collect delinquent child-support payments, but which is used by 17 states to collect other sorts of debts--would increase federal receipts by $2.4 billion over the 1985-1989 period. GAO has long supported the use of IRS offset as a means of collecting debts. Two related PPSSCC proposals to increase debt collections--using private-sector collection agencies to collect from delinquent debtors and charging interest and penalties on delinquent debts--are estimated to have no budgetary impacts, because they are already permissible under the Debt Collection Act of 1982.

A fourth PPSSCC proposal to apply market practices to direct federal lending--specifically, to establish nonrefundable application and origination fees sufficient to cover processing costs--would produce five-year savings of about $0.9 billion, according to CBO. Finally, the PPSSCC has proposed several management improvements in federal credit-processing and debt-collection practices, including establishing a central credit office in each lending agency, developing uniform credit definitions, and improving management information systems. These recommendations are similar to ones GAO has made. CBO was not able to estimate the savings that could be achieved by making these changes; however, the PPSSCC estimates of a $5.6 billion reduction in delinquencies and an $8.1 billion reduction in defaults over three years appear to be optimistic.

MODIFYING SPENDING PROGRAMS

CBO and GAO reviewed six proposals that would modify nondefense discretionary spending programs--four affecting medical care and two dealing with other program areas.

Medical Care

One PPSSCC proposal calls for increasing cost recovery for medical care provided by the Veterans Administration (VA) and the Indian Health Service (IHS). The four elements of this proposal involve adopting Medicare

TABLE IV-2. CBO ESTIMATES OF OUTLAY SAVINGS FROM PPSSCC PROPOSALS TO MODIFY DIRECT SPENDING PROGRAMS (By fiscal year, in billions of dollars)

Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Change
REDUCE MEDICAL CARE COSTS						
Increase cost recovery for medical care by VA and IHS	0.3	0.3	0.3	0.3	0.4	1.5
Phase out VA health care facility construction	*	0.1	0.1	0.1	0.1	0.5
Eliminate excess hospital capacity	a/	a/	a/	a/	a/	a/
Improve planning and resource allocation in VA hospitals	a/	a/	a/	a/	a/	a/
MODIFY OTHER PROGRAMS						
Consolidate federal highway program categories	*	0.1	*	*	*	0.2
Improve procurement policies for the Strategic Petroleum Reserve (Off-budget)	0.1	0.1	0.1	0.1	*	0.3
On-budget Total b/	0.3	0.5	0.4	0.4	0.5	2.2
Off-budget Total b/	0.1	0.1	0.1	0.1	*	0.3

SOURCE: Congressional Budget Office

* Less than $50 million.

a. This proposal is not sufficiently specific for a budgetary impact estimate.

b. Total savings if all proposals were enacted simultaneously would differ from those shown here because of overlaps among items.

hospital and physician reimbursement rates; contracting with fiscal intermediaries to process reimbursement claims; eliminating clauses in health insurance contracts that exclude the federal government from cost recovery; and establishing a means test for veterans without service-connected disabilities who are seeking VA health care.

GAO believes that adopting Medicare hospital and physician reimbursement rates has merit; while specific savings cannot be estimated, it believes significant amounts could be saved. However, CBO and GAO found that the PPSSCC's estimated savings of $750 million in administrative costs through contracting with fiscal intermediaries appear to be clearly overstated. The estimated first-year VA savings are nearly 7½ times the agency's total administrative expenditures for contract care in 1982. CBO and GAO also found that the PPSSCC's estimated savings of $195 million in avoided duplicate payments through the use of a financial intermediary was based on an erroneous assumption. Thus, CBO and GAO concluded that the savings from eliminating duplicate payments would be quite small and would be offset by the higher cost of processing.

Concerning the PPSSCC's recommendation to establish a means test for veterans with non-service-connected disabilities, VA is already implementing such a test as authorized by Public Law 96-330. This would at least partially negate the PPSSCC savings estimated by having VA aggressively pursue medical care cost recovery from veterans who can afford private third-party insurers or pay their full medical care costs. Also, savings would be limited because the means test would not result in savings from denying veterans admission until a sufficient number of beds had been vacated to permit closing down an entire bed section. CBO estimates that the means test would produce five-year savings of $1.5 billion, while denying 7 percent of all hospital admissions and 1 percent of outpatient visits.

A second PPSSCC proposal calls for the VA to stop constructing additional nursing home facilities and, instead, cover future needs by converting underused acute-care beds to extended-care use and contracting with private nursing home operators. CBO estimates that these changes could save about $0.5 billion over the 1985-1989 period with little impact on patient care. Another recommendation is to eliminate excess hospital capacity by reducing reimbursement rates under Medicare and altering the nature of tax-exempt financing for hospitals. Finally, the PPSSCC proposes to improve planning and resource allocation in VA hospitals by adopting a model based on diagnosis-related groups (DRGs) such as that used in the Medicare program. The PPSSCC estimates three-year savings at $0.9 billion and $4.9 billion for these last two recommendations. Although CBO has not been able to estimate the savings from these proposals because they are not sufficiently specific, it appears that the latter one, at least, may be overstated. GAO agrees with the thrust of the recommendations that improved planning and resource allocation should achieve more efficient and economical use of VA's facilities. GAO believes, however, that PPSSCC's savings estimate of $4.9 billion over three years is inflated, because it is based on realizing an occupancy rate that VA is already achieving.

Other Programs

Two other PPSSCC recommendations reviewed by CBO and GAO would modify domestic direct-spending programs in areas other than health. One calls for consolidating roughly 20 federal highway programs into 12, and eliminating special-purpose programs that direct funds to particular states or highway projects. CBO estimates that eliminating the special-purpose programs would reduce federal outlays by $0.2 billion over the next five years; CBO does not expect that any savings would derive from the program consolidation. GAO favors consolidating closely related programs within a functional area, but it does not have a basis for estimating the impact of the PPSSCC proposal.

The PPSSCC proposes to reduce costs associated with filling the Strategic Petroleum Reserve (SPR) by specifying what it characterizes as a slower fill rate, and by eliminating a current legislative requirement that oil bound for the SPR be carried on U.S. flag ships. CBO estimates that the latter change would produce savings of about $0.3 billion over the 1985-1989 period. However, CBO does not attribute any savings to filling the SPR at the rate specified by the PPSSCC, because a rate appreciably below that was already approved for 1984 and therefore is in the baseline. With regard to eliminating requirements that oil bound for the SPR be carried on U.S. flag ships, GAO believes the Congress will need to consider both costs and benefits before acting on the recommendation. Cargo preference legislation provides a trade-off of higher government procurement costs in return for helping to ensure that U.S. flag tankers are available for national security needs. In making its recommendation, the PPSSCC did not indicate that it considered either national security benefits or potential alternative maritime subsidy costs.

INCREASING RECEIPTS FROM THE SALE OF NATURAL RESOURCES AND FEDERALLY PROVIDED SERVICES

A third set of PPSSCC proposals affecting nondefense discretionary spending programs would increase federal receipts from the sale of natural resources or federally provided services.

Natural Resource Sales

The PPSSCC proposes to increase receipts resulting from Forest Service timber sales by imposing a more rapid payment schedule than is now generally used. CBO estimates that this change would increase federal revenues by about $0.4 billion during the next five years. Requiring earlier payments could, however, reduce the size of bids on future contracts while creating cash-flow problems for companies that already hold unprofitable contracts. In GAO's view it is is inappropriate to make changes before the results of the Forest Service's revised payment regulations are evaluated since they are designed both to accelerate cash flow and to encourage earlier timber harvest.

The PPSSCC also proposes accelerating the sale of public lands by the Bureau of Land Management. CBO estimates this would increase receipts by about $0.1 billion during the 1985-1989 period. Under current law, much of the revenue from land sales goes to earmarked revolving funds (primarily, the Reclamation Fund). To implement fully the PPSSCC proposal, the law must be changed so that these revenues can go into the general fund of the Treasury.

A third commission recommendation in this area would call upon the Department of the Interior to evaluate and use, as appropriate, alternative bidding systems in offering leases for oil and gas exploration on the Outer Continental Shelf. Because the Department already matches bidding systems to tracts based on its assessment of the risk inherent in each tract, CBO estimates that the PPSSCC proposal would have no budgetary impact relative to current policy. Although the legislative requirement to experiment with alternative bidding systems in 20 to 60 percent of offshore oil and gas lease sales expired at the end of fiscal year 1983, nothing prevents the Department from continuing to study and use those systems, as recommended by the PPSSCC. The Congress would have to enact legislation requiring the continued use of alternative bidding systems to ensure their use. GAO has recently recommended that such legislation be extended.

Federally Provided Services

The PPSSCC proposes to increase federal receipts in another area by imposing user fees for certain services provided by the U.S. Coast Guard, including search-and-rescue missions in non-life-threatening situations, short-range aids to navigation, domestic icebreaking, and bridge administration. CBO estimates that combining elements of two proposed user-fee schemes could generate $3.8 billion in receipts over the next five years, but this estimate is very sensitive to assumptions regarding how the proposal is

TABLE IV-3. CBO ESTIMATES OF NET OUTLAY SAVINGS FROM PPSSCC PROPOSALS TO INCREASE RECEIPTS FROM THE SALE OF NATURAL RESOURCES OR FEDERALLY PROVIDED SERVICES (By fiscal year, in billions of dollars)

Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Change
INCREASE RECEIPTS FROM NATURAL RESOURCE SALES						
Improve timber sales cash management	0.2	0.3	0.2	-0.1	-0.1	0.4
Sell unneeded public land	*	*	*	*	*	0.1
Improve management of Outer Continental Shelf oil and gas leasing program	0	0	0	0	0	0
INCREASE RECEIPTS FROM OTHER FEDERALLY PROVIDED SERVICES						
Impose user fees for certain U.S. Coast Guard services	0.7	0.7	0.8	0.8	0.8	3.8
Reduce costs of power marketing administrations	0	0.3	0.9	0.9	1.1	3.0
Increase private participation in the commercial uses of space	0	0	0	0	0	0
Total	0.9	1.3	1.9	1.6	1.8	7.3

SOURCE: Congressional Budget Office

* Less than $50 million.

phased in and the services covered. As far back as 1955, GAO recommended that the Coast Guard consider charging for selected services performed primarily for the benefit of specific user groups.

The PPSSCC has recommended three changes that would reduce the net federal costs associated with five federal power marketing administrations (PMAs) that sell and transmit electricity produced from dams built and operated by the Bureau of Reclamation and the Corps of Engineers. Specifically, the commission would require that PMAs pay back federal investments on a timely basis and at market interest rates; would charge a fee for water used to generate electricity; and, finally, would sell the PMAs to nonfederal entities. CBO estimates that implementing the first two changes would generate $3.0 billion in additional receipts over the next five years; it is expected that arranging for the sale of the PMAs would take at least five years. CBO estimates that, if implemented, the repayment and user-fee proposals could raise the prices charged for PMA-generated electricity by perhaps 20 to 25 percent. Sale of the PMAs would increase wholesale prices to distributors by somewhat less than 80 percent, but would still leave them below the national average.

GAO supports the first recommendation but has reservations about the second because of recent changes that have increased PMAs' power rates significantly. With regard to selling the PMAs, GAO believes consideration needs to be given to how the other purposes of these facilities, such as irrigation and flood control would be met. GAO also believes consideration needs to be given to the preference rights of electric cooperatives and other public bodies that now receive lower-cost power from these facilities.

A last PPSSCC proposal in this area calls for increasing private participation in the commercial uses of space by privately financing a possible fifth space shuttle and by shifting to private industry responsibility for future expendable launch vehicles. Neither CBO nor the PPSSCC estimates that these proposals would produce any near-term savings relative to the current policy baseline, but economies might be realized in the future. GAO believes the recommendation warrants consideration; however, the PPSSCC does not address the many policy and legal questions related to such a recommendation, nor does it address the potential impact on government operations that a joint government/industry National Space Transportation System venture could have.

MAKING MORE EFFICIENT USE OF FEDERAL FUNDS AND ACHIEVING OTHER MANAGEMENT SAVINGS

A final set of PPSSCC proposals in the nondefense discretionary area is intended to reduce costs of government purchases and increase the efficiency of government operations.

Labor-Cost Savings on Government Contracts

The commission proposes to reduce outlays for the purchase of goods and services by repealing or modifying a number of statutes that raise labor costs on federal contracts. One of these--the Davis-Bacon Act--requires that contractors engaged in federally funded construction work pay minimum "prevailing" wage rates and fringe benefits to their workers. The Service Contract Act imposes similar requirements on contractors providing services to the federal government. The Walsh-Healey Public Contracts Act and related statutes require that workers on federal contracts above some minimum be paid an overtime premium for work over 8 hours a day, even if they are not working more than 40 hours per week. All of these laws increase labor costs on federal contracts above what they would otherwise be. If they were all repealed, as the PPSSCC recommends, CBO estimates that outlays over the next five years would be reduced by $3.2 billion, $0.2 billion, and $1.9 billion for each of the laws in turn.

GAO believes there is merit in the PPSSCC's recommendation to repeal the Davis-Bacon and Service Contract Acts. In both cases, however, GAO believes executive branch officials should consider monitoring the effect of repeal to determine whether there are severe adverse effects on workers. GAO has not performed work dealing with repeal of the Walsh-Healey Act; however, based on work done on the application of the act, GAO believes other commission recommendations in this area have merit.

Other Management Savings

The final set of PPSSCC proposals examined in the nondefense discretionary spending area were seven recommendations intended to realize efficiencies in the operation of a wide range of government programs. CBO was able to prepare savings estimates for four of them; in the other cases, either the proposals were not sufficiently specific to make an estimate possible, or the data necessary to prepare an estimate were unavailable.

TABLE IV-4. CBO ESTIMATES OF OUTLAY SAVINGS FROM PPSSCC PROPOSALS TO MAKE MORE EFFICIENT USE OF GOVERNMENT FUNDS AND ACHIEVE OTHER MANAGEMENT SAVINGS (By fiscal year, in billions of dollars)

Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Change
LABOR COSTS IN GOVERNMENT CONTRACTS						
Repeal or modify Davis-Bacon Act	0.2	0.6	0.7	0.8	0.9	3.2
Repeal or modify the Service Contract Act	*	*	*	*	*	0.2
Repeal or modify the Walsh-Healey Public Contracts Act	0.1	0.3	0.5	0.5	0.6	1.9
ACHIEVE OTHER MANAGEMENT SAVINGS						
Encourage electronic transfer of federal funds	1.2	*	*	*	*	1.2
Reduce the size of government vehicle fleets	0.2	0.1	*	*	0.1	0.4
Make timely federal payments for procurement and grant programs	0	0	0	0	0	0
Improve verification of applicants' eligibility for housing subsidies	0	0	0	0	0	0
Improve research and development management	a/	a/	a/	a/	a/	a/

(Continued)

TABLE IV-4. (Continued)

Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Change
Increase use of performance specifications for federal construction projects	b/	b/	b/	b/	b/	b/
Upgrade obsolete computer hardware and software	b/	b/	b/	b/	b/	b/
Total	1.7	1.0	1.2	1.3	1.6	6.9

SOURCE: Congressional Budget Office

* Less than $50 million.

a. This proposal is not sufficiently specific for a budgetary impact estimate.

b. Lack of available information precludes estimating this proposal.

Of the proposals considered, the largest savings--$1.2 billion over five years, as estimated by CBO--would be achieved by encouraging the use of direct deposit/electronic fund transfers by recipients of federal payroll and benefit disbursements. However, most of the savings would be derived from delaying the mailing of checks to those who do not elect the direct deposit option. In GAO's opinion, the recommendations are consistent with principles of sound cash management, because decelerating disbursements generally benefits the government. As the PPSSCC recognizes, however, there are certain practical and legal obstacles that must be overcome before EFT can be made mandatory.

CBO estimates that the PPSSCC's recommendation to reduce the size of the federal government's vehicle fleet would save $0.4 billion over the same period--about one-fourth of the three-year savings estimate prepared by the PPSSCC. GAO has previously recommended that improved vehicle management information systems be developed; it contends that the optimum size of the agency fleets cannot be determined without such information.

For two other proposals in this group, CBO estimates that no savings would be achieved over the next five years. CBO estimates that a set of proposals to make more timely federal payments for federal procurements and grants--which the PPSSCC estimates would produce three-year savings of $2.6 billion--would not affect outlays, largely because they already reflect current law or practice. Another proposal--to increase efforts to verify applicants' eligibility for housing subsidies--could produce savings by increasing reported incomes, on which subsidies are based, but would also require additional budgetary resources to implement. The CBO's estimate is thus for no net budget impact over the next five years. Although GAO believes that the PPSSCC proposal has merit, it has suggested that obtaining the budgetary resources necessary to implement it would present problems.

CBO was unable to prepare savings estimates for PPSSCC's proposals to increase the use of performance specifications for federal construction projects, improve the management of federal research and development efforts, and update obsolete computer hardware and software. GAO believes that all these proposals have merit conceptually. GAO believes, however, that it may be difficult for the federal government and the construction industry to agree on what building components are conducive to using performance specifications. An additional impediment to implementing this proposal quickly is the lack of standards for evaluating alternative materials and methods. With regard to improving research and development efforts, GAO believes that PPSSCC's recommendations could reduce technical staff while improving R&D planning, budgeting, and oversight. In the area of upgrading obsolete computer hardware and software, GAO believes that achieving maximum savings depends on the management and acquisition strategies pursued. For example, if equipment is leased rather than purchased, the budgetary impact is minimized over the short term, although purchasing could be more cost effective over the life cycle.

REPLACE DIRECT LOAN PROGRAMS WITH LOAN GUARANTEES (ASSET-18)

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
On-Budget						
Budget Authority	1,540	860	920	1,130	1,360	5,810
Outlays	40	10	120	460	780	1,410
Off-Budget						
Budget Authority	6,660	8,250	8,340	8,170	7,630	39,050
Outlays	6,660	8,250	8,340	8,170	7,630	39,050

PPSSCC Proposals. The PPSSCC recommends converting into partial loan guarantee programs the direct loans offered under the 7(a) program of the Small Business Administration (SBA) and the direct loan programs offered by the Farmers Home Administration (FmHA). The 7(a) direct loan program is SBA's principal business loan program. Loans are made to small businesses to construct plants, purchase equipment and materials, and to supply working capital. FmHA provides direct loans for farm operating expenses and ownership; emergency disaster assistance; rural community facilities; and mortgage and rental assistance for rural residents, primarily low-income. The current SBA and FmHA loan guarantee maximum of 90 percent would be reduced to 75 percent under the PPSSCC proposal.

Substituting guaranteed for direct SBA and FmHA lending would transfer more responsibilities and risk from the federal government to the private sector, thus reducing program costs, according to the PPSSCC. All federal agencies would also be encouraged to develop and enforce stricter requirements in other direct loan programs, and to emphasize the use of guaranteed loans throughout the federal government.

Budgetary Impact. The PPSSCC estimates a three-year cumulative savings of $1.9 billion by phasing out the SBA 7(a) and FmHA direct loan programs. The bulk of these savings--$1.7 billion--represents elimination of the interest rate subsidies from the FmHA programs; the remainder includes reduced administrative costs. Unlike the PPSSCC, however, the CBO estimate of savings does not attempt to measure the cost savings resulting from eliminating direct loans, but rather the budgetary effect.

Outlay savings, estimated to total $40.5 billion over five years, reflect reductions in loan disbursements and administrative expenses less net repayments.

The savings estimated by CBO relative to the baseline assume elimination of the direct loan programs beginning in fiscal year 1985. The baseline loan levels in each year are the 1984 levels, adjusted for projected inflation. For 1984, SBA is authorized to make $108 million in 7(a) direct loans, while FmHA loans total $8.6 billion. The on-budget reduction to the baseline in each year reflects the net budgetary effect of shifting the direct loans of each program to guaranteed loans. Most of the impact, however, would occur off-budget, because FmHA loans are sold to the Federal Financing Bank, an off-budget agency. Such asset sales effectively transfer loan disbursements off-budget. As a result, termination of FmHA's direct loan programs would significantly reduce off-budget outlays.

Program Impact. Eligibility for SBA direct business loans requires that an applicant first be rejected for an SBA guaranteed loan. Consequently, an applicant would be unlikely to qualify for any expanded guarantee program resulting from the PPSSCC conversion plan. New firms with little financial history would be most affected.

Some of FmHA loans require a "credit-elsewhere" test, meaning that in order to be eligible, applicants must be unable to obtain credit from other sources. A switch to guaranteed loans would eliminate such applicants from consideration.

In addition, a substantial proportion of current FmHA direct lending is made available at subsidized interest rates. Market-rate loans, even if guaranteed, would be beyond the financial reach of many of those now eligible for direct loans. For example, most of FmHA's housing assistance in recent years has been earmarked by the Congress to benefit low-income households. The PPSSCC proposal would require that FmHA begin serving families with much higher incomes. In 1983, newly assisted homebuyers had an average annual income of about $12,700 and will pay about $2,540 per year in mortgage payments. Loans made in 1983 carried an average interest rate of about 1.5 percent. (Homeowners are required to pay 20 percent of their adjusted incomes and interest rates are adjusted upward if incomes grow.) Market-rate borrowers would have mortgage payments of about $6,000 per year for similar houses.

Currently, loans to developers of multifamily housing carry interest rates of 1 percent. Rents based on market-rate financing would have to be much higher, placing the housing units out of reach to many of the households served by FmHA. Reduction of the guarantee ceiling from 90 percent to 75 percent could further eliminate certain lenders as well as borrowers.

In sum, the PPSSCC's proposal would significantly change the roles of SBA and FmHA by reducing their ability to serve businesses and households with limited financial resources.

Implementation. Congressional action would be required to phase out both the SBA 7(a) and FmHA direct loans, as well as to increase the guarantee obligation levels for each program. At present, the Congress generally specifies the mix between direct and guaranteed lending, as well as the program levels within each category.

References. PPSSCC, Task Force Report on Private Sector Financing, pp. 344-54. SBA, Report of the Inspector General's Advisory Council on Debt Collection (June 1982). GAO, The Farmers Home Administration's Economic Emergency Loan Program Could Be More Effective (CED - 80-84, March 28, 1980).

RAISE INTEREST RATES ON GOVERNMENT LOANS
(ASSET-15, STATE-7)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	10	90	230	410	620	1,360
Outlays	10	90	230	410	620	1,360

PPSSCC Proposal. The gap between market interest rates and the interest rates charged on direct loans made by the federal government has increased for a large number of lending programs in recent years. The PPSSCC recommends that interest rates for all federal direct loan programs be set at rates equal to current market interest rates or at rates that would reestablish the subsidy intended by the Congress when the program was enacted. Specifically, the PPSSCC suggests rate changes for 13 federal loan programs--including Rural Electrification Administration (REA) loans for rural electric utilities and Farmers Home Administration (FmHA) low- and moderate-income housing assistance--and recommends increasing rates charged for Agency for International Development (AID) direct loans to less developed countries. But the basic proposal is applicable to all federal direct loan programs.

Budgetary Impact. CBO estimates that implementing the PPSSCC proposal for the specified programs would produce five-year savings of about $1.4 billion. Receipts would be increased in each program, with the largest savings coming from raising rates for rural electric development loans, rural housing assistance, and foreign aid. CBO's estimate assumes that interest rates charged for these programs would be raised to about the same levels as those assumed by the PPSSCC, adjusted to reflect CBO projections of interest rates and current lending levels. The estimate assumes that necessary legislative changes would be enacted during 1984 to allow all new rates to be applied to loans funded in fiscal year 1985. The estimate also reflects program disbursal rates unique to specific programs. Sufficient data were not available to adjust these savings estimates for changes in loan demand or program default characteristics that would result from the proposed rate changes.

The PPSSCC savings estimates are substantially higher, totaling \$2.4 billion over the first three years. They do not reflect the fact that loans funded in a given year are disbursed over a period of several years, and that loan amortization schedules reduce the initial impact of changes in interest rates. The PPSSCC estimates also were made at a time when the spread between government rates and market rates was at an all-time high. The recent decline in all interest rates reduces the savings possible for most programs. In several cases, Congressional action has already taken place to reduce or eliminate the subsidies targeted by the proposal.

The two PPSSCC recommendations both include the savings possible from raising rates for the Public Law 480 food aid programs. The CBO estimate eliminates that duplication.

Higher rates charged on direct government loans to individuals or businesses liable for U.S. income taxes would be reflected in greater interest deductions. Net government gains from this proposal would therefore be decreased by the amount of the deductions--although no estimate of the revenue losses is included in the CBO savings projections.

<u>Program Impact</u>. Changing interest rates to reflect the program's intended subsidy would, under current economic conditions, result in higher chargeable rates for almost all federal loan programs. The largest increases in interest rates would be for REA loans for rural electric utilities and FmHA low- and moderate-income housing assistance. The higher rates could be expected to (1) increase delinquencies and defaults because of the increased cost of debt service to all government borrowers and (2) decrease loan demand as the gap between the costs of federal and nonfederal borrowing narrowed. The net impact on any individual program would depend on the relative rate change and the alternatives available to the program's constituents.

<u>Implementation</u>. Interest rates for most direct loan programs are established by legislation, either as a specific rate or as a formula requiring administrative interpretation and action. Implementation of this proposal would require the Congress to amend existing law for each program to reflect a chargeable rate equal to the relative rate originally intended by the Congress. This determination of the "intended" relative rate would be a substantially more difficult process than implied by the PPSSCC report. Reconstructing the original intent of the Congress for many of these programs would require information that may not now exist, if it ever did. In the absence of a clear legislative history, the Congress would have to reinterpret the goals of each program.

Additional Comments. With respect to AID loans to less developed countries, the extent to which the mix of loans and grants to individual countries might change or remain the same is unknown. A shift to grants would tend to offset the gains from higher rates.

GAO believes that some savings could be realized by careful upward adjustment of interest rates in selected countries. However, the wide range of economic and debt-servicing capacities among developing nations points to the desirability of flexibility in establishing a minimum base rate system.

References. PPSSCC, Task Force Report on State/AID/USIA. PPSSCC, Task Force Report on Financial Asset Management, pp. 314-28. GAO, Catalog of Federal Credit Programs and Their Interest Rate Provisions (PAD - 83-12, December 1982). GAO, Should Control Federal Credit Programs to Promote Economic Stabilization (PAD - 83-22, May 1983). GAO, Exposure Draft: A Methodology for Estimating Costs and Subsidies from Federal Credit Programs (PAD - 79-5, July 1979). GAO, Federal Credit Assistance: An Approach to Program Design and Analysis (PAD - 78-31, May 1978).

CONSOLIDATE THE DEPARTMENT OF EDUCATION'S STUDENT LOAN PROGRAMS (ED-1-1)

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
Budget Authority	525	495	410	410	405	2,245
Outlays	275	480	425	400	395	1,975

PPSSCC Proposal. To save federal costs and streamline administration in federal lending for education, the PPSSCC recommends consolidating the National Direct Student Loan (NDSL) program and the auxiliary loan program (sometimes referred to as PLUS) into the more cost-effective Guaranteed Student Loan (GSL) program. The NDSL program is now operated as a revolving fund at each participating college. The commission also recommends consolidating the Federally Insured Student Loan (FISL) program into the GSL program, but FISL is already a component of the GSL program.

Budgetary Impact. The CBO savings estimate includes the net effect of accelerated federal receipts totaling 90 percent of NDSL loan repayments, elimination of the annual NDSL federal capital contribution, an increase in GSL costs for NDSL borrowers, and the federal cost of administering collection of NDSL loans outstanding. The current auxiliary loan program costs the federal government only a few million dollars annually, so its elimination would have little effect on federal spending.

Data on the status of NDSL revolving funds are scarce. The Administration estimates that roughly $400 million dollars are collected annually in NDSL repayments; 90 percent would be the federal government's share, and this amount would be returned to the federal government. Under current law, these contributions are scheduled for repayment beginning in 1991. The PPSSCC proposal would accelerate these repayments. Because the proposal does not specify how closing out the revolving funds would work and when the federal government would assume responsibility for collections, CBO assumes that, for the first two years, schools would continue to collect the loans and reimburse the federal government quarterly. After that, the collections would be handled federally. CBO estimates these collection costs would be about $70 million annually based on experience in the GSL program. Finally, the federal capital contribution, estimated in the CBO baseline at about $200 million annually, would be eliminated under the proposal.

The comparable PPSSCC estimate for this set of proposals is a savings of $870 million over a three-year period. The CBO estimate is $1.43 billion. While analytic methods probably differ widely, the major discrepancy in the estimates is CBO's inclusion of savings from eliminating the annually appropriated federal capital contribution.

Program Impact. This proposal would effectively eliminate the auxiliary loan program. Borrowers in the auxiliary loan program, whether parents borrowing on behalf of a student or students themselves, are either borrowing the funds in addition to borrowing the maximum under the GSL program or are not currently eligible for a GSL. Unless the eligibility requirements and maximum borrowing limits of the GSL program were expanded, current borrowers of auxiliary loans would not be able to borrow the funds. Any program expansion, however, could significantly increase costs.

Availability of loan capital to lower-income students now borrowing under the NDSL program might be reduced. Approximately 800,000 students are expected to borrow approximately $700 million in NDSL loans in 1985. Under the PPSSCC proposals, these students would have to borrow from GSL lenders. Whether any of these students could then borrow would depend on how much they are currently borrowing of the current GSL annual limit. To the extent that these students cannot borrow the needed capital under the GSL program, federal aid targeted to low-income students would be reduced. In addition, financial-aid officers would have less flexibility to balance loan and grant aid to low-income students.

In 1991 under current law, colleges would begin paying the federal government 90 percent of their NDSL collections. This proposal not only accelerates these receipts but actually closes out the revolving funds at each institution and makes the federal government responsible for loan collections. This would significantly increase the Education Department's role in the collection business. Whether the federal government would be more successful collecting loans than the academic institutions is not known. Cumulative outstanding loan volume in the NDSL program, however, is estimated to be close to $4.5 billion. If the NDSL were eliminated and the revolving funds at the institutions closed out beginning in 1985, 90 percent of these funds could be returned to the Treasury over the next 10 to 15 years.

Implementation. To merge the NDSL and auxiliary loan programs into the GSL program would require legislative action. Liquidating the NDSL revolving funds at roughly 3,000 campuses could take time and require further legal action if universities challenged the action through the courts. In 1979 and 1980 the President suggested--and Congress considered--consolidating, eliminating, and refinancing all the loan programs. Because the NDS and GSL programs were seen as addressing different students and different needs, the Congress maintained them as separate programs. In addition, the auxiliary loan program was established as a means of providing loan capital to parents, financially independent undergraduates, and graduate students.

References. PPSSCC, Task Force Report on the Department of Education, pp. 23-31.

USE IRS REFUND OFFSETS TO INCREASE COLLECTION OF DELINQUENT DEBT (ASSET-27)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	150	250	450	650	900	2,400
Outlays	150	250	450	650	900	2,400

PPSSCC Proposal. The PPSSCC recommends increasing collections of delinquent nontax debts by offsetting these amounts against federal income tax refunds. At present, tax refund offsets are used at the federal level only to collect delinquent child support payments. Seventeen states, however, now use tax refund offsets and have found the system to be effective and economical.

GAO made a similar recommendation in a March 1979 report to the Congress. Then, in July 1980, GAO reported that the State of Oregon was able to collect more than $2.4 million by offset at a cost of approximately $200,000. At the same time, debtors' rights to due process were protected and tax refunds were not arbitrarily offset. In the same report, GAO reiterated its recommendation that the federal government use the tax refund offset mechanism.

In 1979 a provision to allow for a pilot test of the offset mechanism was attached to the fiscal year 1980 Treasury, Postal Service, and General Government Appropriations bill. The bill provided $1 million and 30 positions to the IRS to match defaulted student loans with tax refund records. Although the provision was later deleted, GAO believes that 30 positions would be adequate for a pilot study.

Budgetary Impact. CBO estimates that the five-year savings from this proposal would be approximately $2.4 billion, excluding interest savings. CBO accepted the assumptions of the PPSSCC, which were that 75 percent of delinquent nontax debt is collectible and that 18 percent of the collectible delinquent debt could be recovered through a refund offset. (The 18 percent estimate is based on the results of a 1979 GAO study, which concluded that for a sample of debts totaling $413,000, up to 36 percent could have been collected using a tax refund offset.) As of September 30, 1983, the total nontax debt delinquent by at least 360 days was about $11 billion. Collections out of this sum, and out of projected future additions to this category of debt, were assumed to be spread over five years.

The PPSSCC estimates about the same savings--$2.3 billion--but in a three-year period, including interest savings. The commission's estimate includes a percentage of debt delinquent under 360 days, is based on debt outstanding in June 1982, and assumes that collections are made within three years.

Program Impact. Because the tax-refund offset is designed as a supplement to agency debt-collection procedures, the program impact would be minimal. Before debts were referred to the Internal Revenue Service (IRS), agencies would document collection efforts made for each debt. Agencies would retain primary responsibility for collecting delinquent debts and the IRS refund offset would be used only as a last resort. The IRS role would be to match agency data on delinquencies with tax refund data, and the agency would be reimbursed for that work.

The IRS has expressed concern that implementation of the offset might adversely affect the voluntary withholding system. The IRS is currently studying possible effects on the tax system but has not yet completed its study. According to the PPSSCC, 69 million people received refunds in 1980, of whom only 1.8 million were delinquent debtors eligible for refunds. Thus, only about 2 percent of those eligible for refunds would be affected, and it seems unlikely that this small group would substantially change the withholding patterns of the general public.

The IRS has also expressed reservations about concentrating resources in a refund offset program. The agency feels that its resources and expertise should be concentrated on administration of the tax laws. However, additional costs would be small relative to the increase in collections, and the IRS would be reimbursed by the relevant agencies.

Implementation. Although the IRS already has the authority to offset tax refunds, legislative changes would be necessary to clarify the IRS code with regard to use of the offset mechanism. GAO and the Office of Management and Budget, in comments on previously proposed legislation, cautioned that safeguards should be instituted to protect debtors against arbitrary offset actions. GAO has recommended that the IRS reach agreements with each agency regarding procedures for implementing the tax refund offsets, in consultation with the Attorney General's office. These agreements would provide a mechanism for resolving due process and other procedural issues. The PPSSCC also recommends interagency agreements with the IRS. Debtors' rights to due process would be protected by

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establishing the validity of the debt, notifying the debtor before transferring the debt to IRS, giving the debtor an opportunity for a hearing, and notifying the debtor when the offset was collected.

References. PPSSCC, Task Force Report on Financial Asset Management, pp. 452-77. GAO, The Government Can Collect Many Delinquent Debts by Keeping Federal Tax Refunds as Offsets (FGMSD - 79-19, March 9, 1979). GAO, Oregon's Offset Program for Collecting Delinquent Debts Has Been Highly Effective (FGMSD - 80-68, July 17, 1980).

INCREASE DEBT COLLECTION THROUGH OUTSIDE EFFORTS (ASSET-28)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

PPSSCC Proposal. The commission recommends that, when federal agencies fail to collect non-tax debt from delinquent debtors, the delinquencies be referred to credit bureaus and private-sector collection agencies. Ultimate responsibility for these debts would remain with the lending agency. The commission also recommends that, before resorting to private collection agencies, a debt collection consultant train agency employees in debt collection techniques. The PPSSCC further proposes that the Internal Revenue Service (IRS) be allowed to disclose debtors' addresses. The commission recommends issuance of an executive order emphasizing debt collection and the use of credit bureaus and collection agencies. This order would require each agency to determine, through a benefit-cost analysis, the cost effectiveness of using government employees or private contractors to collect delinquent debt.

Budgetary Impact. The Congress has already enacted legislation--the Debt Collection Act of 1982 (Public Law 97-365)--which allows the use of credit bureaus and private-sector collection agencies, and authorizes the IRS to disclose debtor addresses. Because the anticipated improvements in collections are therefore included in the CBO baseline assumptions, no additional savings would result. The PPSSCC savings estimate is $1.8 billion over three years, including interest.

Program Impact. Because agencies are already empowered to use both credit bureaus and private collection agencies, further program impact would be minimal.

Implementation. Under the 1982 law, eight agencies are currently testing the use of collection agencies to recover delinquent debts. Also, several agencies have begun referring debtors to credit bureaus after proper notification (60 days in advance of the agency's intent to disclose debt information to a consumer reporting agency). But extensive information about the cost effectiveness of using such agencies is not yet available. Preliminary evidence suggests that collections did increase after delinquent debtors were made aware that they would be referred to credit bureaus.

References. PPSSCC, Task Force Report on Financial Asset Management, pp. 478-86. GAO, Significant Improvements Seen in Efforts to Collect Debts Owed the Federal Government (AFMD - 83-57, April 28, 1983). GAO, The Government Can Be More Productive in Collecting Its Debts by Following Commercial Practices (FGMSD - 78-59, February 23, 1979).

CHARGE INTEREST AND PENALTIES ON DELINQUENT DEBT (ASSET-29)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

PPSSCC Proposal. The PPSSCC proposes that interest and penalties be assessed and paid on delinquent debt owed the federal government. Under the Debt Collection Act of 1982 (Public Law 97-365), agencies are already required to charge interest, penalties, and administrative costs on nontax delinquent debt. In addition, the Federal Claims Collection Standards Act requires the assessment of interest on delinquent debts. In the past, federal agencies have not complied with those standards either because their accounting systems were inadequate to handle the task or because the standards were perceived as inadequate. The standards are now being revised by GAO and the Department of Justice, and most agencies are waiting for release of the new standards (due in February 1984) before instituting interest and penalty charges. The PPSSCC recommendation was made before the Debt Collection Act was passed. That act now requires that all nontax debts past due 90 days be assessed a penalty of 6 percent a year and administrative costs. Both the PPSSCC and GAO believe that such a penalty charge would add an incentive for borrowers to repay their debts more quickly. The commission also recommends that delinquent accounts turned over to the Justice Department and to private collection agencies be assessed uniform interest and penalties.

Budgetary Impact. This proposal is already being implemented under the Debt Collection Act and is reflected in the CBO baseline. Therefore, CBO estimates no additional savings as a result of this proposal. The PPSSCC calculated three-year savings for this option of $1.1 billion, by deleting estimated savings from its other debt collection proposals for outstanding delinquent debt and then applying interest and penalty charges to the remaining balance.

Program Impact. All debts past due 90 days or more would be assessed a penalty of 6 percent a year, administrative costs, and interest charged according to a formula set by the Debt Collection Act. Agencies may need to modify existing accounting systems to assess interest and penalty charges.

Implementation. The Debt Collection Act provides the necessary legal framework for imposing interest, penalty charges, and administrative costs. Because the provisions of the act are not retroactive, however, agencies are bound by the provisions of any loan agreement or contract signed before that act passed. Agencies may need to revise existing loan documents if those documents prohibit the charging of interest or set an interest rate that is too low. Until agencies correct the deficiencies in their lending instruments and accounting systems, it will be difficult to realize any savings.

References. PPSSCC, Task Force Report on Financial Asset Management, pp. 487-93. GAO, The Government Needs to Do a Better Job of Collecting Amounts Owed by the Public (FGMSD - 78-61, October 20, 1978). GAO, Significant Improvements Seen in Efforts to Collect Debts Owed the Federal Government (AFMD - 83-57, April 28, 1983).

APPLY MARKET PRACTICES TO DIRECT FEDERAL LENDING (ASSET-11)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	170	180	180	190	190	910
Outlays	170	180	180	190	190	910

PPSSCC Proposal. The PPSSCC proposes four changes in the federal direct loan programs to make their policies and procedures parallel those common in private-sector lending. The recommendations are intended to reduce payment delinquencies and to recover certain costs associated with making loans. Specifically the recommendations are:

- Enforce the Treasury Department's requirement that interest be charged on all late loan payments,
- Establish a late payment penalty for all federal direct loan programs,
- Establish nonrefundable application and origination fees sufficient to recover all federal costs associated with making loans, and
- Shorten the time span that determines delinquency from 30 days to 15 days.

Except for the nonrefundable application fee and the shortened delinquency term, these recommendations reiterate provisions of the Debt Collection Act of 1982 (Public Law 97-365) currently being implemented by federal agencies. That legislation applies not only to direct federal loans but also to all delinquent nontax debt owed to the government.

Budgetary Impact. The savings relative to the CBO baseline represent the estimated receipts from the PPSSCC proposal to require nonrefundable application or origination fees for all federal direct loans. The additional receipts from penalty interest and fees will mostly be achieved with the full implementation of current policy under the Debt Collection Act. Although the proposed 15-day delinquency period reflects practices common with private lenders, the budgetary impact of its application to federal loans is not clear. The CBO assumes no effect relative to the baseline.

The PPSSCC estimates increased first-year receipts of $503 million in penalty interest and $335 million in penalty fees. Estimated penalty interest decreases to $487 million and $433 million in the second and third years, respectively, while penalty fees decrease to $325 million and $289 million. These estimates are based on an assumed level of delinquent loan debt of $8.6 billion in the first year, declining to $6.4 billion by the end of the third year as a result of the penalties. The penalty interest rate is assumed to be 6 percent. The commission estimates that 70 percent of the additional penalties will be collected.

The commission estimates receipts from application fees of $172 million per year. The estimate is based on the 1983 level of new direct loans, about $40 billion dollars, in all three years. The CBO estimates are based on the projected level of loan applications incorporated in the CBO baseline, about $39 billion in 1984, increasing to $44.6 billion by 1989. Both sets of estimates include an adjustment for programs in which fees or partial fees are already charged. The application fee was assumed to be 5 percent.

Program Impact. The first federal loan programs were created mainly to provide funds to areas short of capital or to compensate for private-market inefficiencies. Many of these programs have since been changed, however, and new ones have started to benefit individuals who, because of low incomes or other factors, are not deemed creditworthy by private lenders. Thus these programs, by their nature, carry high default risks. In some cases, additional default penalties would simply increase a delinquent borrower's financial burden and diminish his or her ability to repay.

In cases in which the government provides direct loans at subsidized interest rates, the absence of application fees could be considered part of the subsidies. The inclusion of separate fees, however--even if waived as part of the assistance packages--would provide a useful measure of the full value of the subsidies.

Implementation. The PPSSCC states that a brief survey indicates that few statutes, if any, prohibit charging fees, late payment penalties, or penalty interest. It adds, however, that several agency lawyers are of the opinion that specific fee authorizations are needed. Although certain programs already require application fees or other financial commitments, current laws often require that these be returned when borrowers meet their program obligations.

With regard to shortening the time span that determines delinquency from 30 days to 15 days as recommended by the PPSSCC, the Debt Collection Act of 1982 would require a change. It currently states that interest shall not be charged if amounts due are paid within 30 days after a delinquent borrower has been notified.

References. PPSSCC, Report on Federal Financial Asset Management, pp. 103-13. GAO, The Government Needs to Do a Better Job of Collecting Amounts Owed by the Public (FGMSD - 78-61, October 20, 1978). GAO, The Government Can Be More Productive in Collecting Its Debts by Following Commerical Practices (FGMSD - 78-59, February 23, 1978). GAO, Significant Improvements Seen in Efforts to Collect Debts Owed the Federal Government (AFMD - 83-57, February 4, 1983).

IMPROVE CREDIT PROCESSING AND FEDERAL DEBT COLLECTION MANAGEMENT (ASSET-12, 26)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The budgetary impact of the PPSSCC recommendation cannot be estimated with available information.					
Outlays						

PPSSCC Proposal. The PPSSCC proposes improvements in the way the federal government processes credit and collects debts. The recommendations include: establishing a central credit department within each agency; developing and promulgating uniform credit definitions; providing incentives to individuals and agencies to improve collections; improving management information systems (MIS) and automated records; and improving training programs. In essence, the PPSSCC recommends bringing private-sector practices to government credit processing. GAO has made similar recommendations in several reports, most recently in an April 1983 publication.

Budgetary Impact. The PPSSCC estimates that the proposed improvements would prevent some delinquencies as well as increase collections of delinquent debt owed the federal government. Improvements in credit processing were projected to reduce defaults by $5.6 billion over three years, while improvements in debt collection were estimated to reduce delinquent debt by $8.1 billion over three years--out of a total of $19 billion that would otherwise be delinquent. These estimates may be too optimistic, given that many government lending programs are intended to meet credit needs different from those provided by the private sector. Furthermore, allowance should be made for planning and implementation time lags, additional costs requiring appropriations action, and the effects of the ongoing debt collection effort that have already been included in CBO's baseline assumptions. There may also be additional costs for equipment and personnel to implement this proposal, partially offsetting any savings. Because savings are highly uncertain, and because certain agencies have begun implementing some of the PPSSCC proposals while other agencies have not, the budgetary impact cannot be estimated.

Program Impact. The PPSSCC and GAO have both cited the need for agencies to increase the emphasis on loan supervision as well as loan making in order to increase collections. In some instances, however, the goal of improved debt collections directly conflicts with the mission of an agency. For example, more lenient and flexible credit standards might be more consistent with the goals of some loan programs of the Small Business Administration (SBA) and the Farmers Home Administration (FmHA) than increased debt collection. While most agencies (including SBA and FmHA) have increased their emphasis on debt collection management, either through implementation of the Debt Collection Act of 1982 or as part of the Administration's "Reform 88" initiative, loan making is still their primary responsibility.

Implementation. Improving debt collection practices within each agency could generally be implemented administratively. Many of the recommended activities are already priorities for several agencies. For example, the Department of Education has created a credit department to oversee collection of student loans, and the Departments of Agriculture and of Housing and Urban Development are automating manual records and updating computer equipment. How long it will take to complete this task throughout the government is uncertain. GAO recommends that agencies develop and hold to a reasonable schedule for implementing effective accounting systems. To the extent that implementing the PPSSCC proposals would require additional resources, Congressional approval would be needed.

References. PPSSCC, Task Force Report on Financial Asset Management, pp. 420-51. GAO, The Government Needs to Do a Better Job of Collecting Amounts Owed by the Public (FGMSD - 78-61, October 20, 1978). GAO, The Government Can Be More Productive in Collecting Its Debts by Following Commercial Practices (FGMSD - 78-59, February 23, 1979). GAO, Significant Improvements Seen in Efforts to Collect Debts Owed the Federal Government (AFMD - 83-57, April 23, 1983).

INCREASE COST RECOVERY FOR MEDICAL CARE BY VA AND IHS (HOSP-12, HOSP-13)

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
Budget Authority	260	280	301	325	350	1,516
Outlays	260	280	301	325	350	1,516

NOTE: Only the savings estimated to result from the imposition of a means test for VA hospital care are shown. Data needed to estimate the budgetary impact of the other recommendations are not available.

PPSSCC Proposals. The PPSSCC has recommended several measures to increase the cost recovery of the Veterans Administration (VA) medical care and Indian Health Service (IHS) programs. The proposals include:

- o Adopting Medicare hospital and physician reimbursement rates;
- o Contracting with fiscal intermediaries to process claims of hospitals and physicians for reimbursement;
- o Eliminating clauses in health insurance contracts that exclude the federal government from cost recovery; and
- o Establishing a means test whereby the VA could determine the ability of veterans without service-connected disabilities to pay for their medical care.

Budgetary Impact. The PPSSCC has estimated that the VA could save $102.6 million over three years and IHS could save $86.1 million by adopting Medicare hospital and physician reimbursement rates. CBO was unable to determine the budgetary impact of this proposal because comparable data on reimbursement rates were not available for the three programs. The Medicare program is currently in the process of changing from a cost-based reimbursement system for hospital charges to a system of fees based on diagnosis-related groups (DRGs). The VA is making similar changes in its procedures for reimbursing contract hospital care costs but plans to pay only 90 percent of the Medicare DRG rate. Thus, the changes now being implemented by the VA will preclude the PPSSCC proposal and should result in greater savings.

The IHS is also considering a DRG-based reimbursement system, but has not yet received the legal authority to make such a change. At present, the IHS usually pays billed charges in full, but these often represent a rate that IHS and the hospital have negotiated down from the hospital's customary charge. Since IHS reimbursement rates vary from hospital to hospital, it could not be determined from the data available what the effect would be of switching to Medicare rates.

For outpatient care, data are not available to compare the reimbursement rates--exclusive of copayments and deductibles--under Medicare with those used by VA and IHS. Therefore, no savings were included above for switching to Medicare reimbursement rates for outpatient care.

The PPSSCC estimated that nearly $750 million in administrative costs could be saved over three years if the VA and IHS contracted with fiscal intermediaries to process claims for reimbursement. These savings are clearly overstated, since the estimated first-year VA savings are nearly 7½ times the agency's total administrative expenditure for contract care in fiscal year 1982. The PPSSCC estimate was based on the erroneous information that it costs the VA between $100 and $140 to process a claim, and IHS between $50 and $200. (The figures were attributed to GAO, but that agency states that it has never calculated the costs.) According to the VA, its average processing cost is $1.83, including all overhead; the IHS states that its cost is between $3 and $4 per claim. Since the PPSSCC notes that the processing costs of a typical financial intermediary average about $6 per claim, no administrative savings would result from this recommendation.

The PPSSCC also maintains that $195 million in duplicate payments could be saved over three years by using financial intermediaries. But duplicate billings could only be recognized if one financial intermediary processed all claims for federal medical programs, and this does not appear to be the focus of the PPSSCC proposal. Even if a single processor were used, the savings would be minimal. The PPSSCC estimate of the VA savings, for example, assumes that about 16 percent of contract care costs could be eliminated, citing a GAO report as the source of its data. The GAO report, however, states that, while 15.9 percent of VA contract care claims resulted in duplicate payments, only 4.9 percent of the amount paid in these cases duplicated another federal payment. Thus, CBO concluded that the savings from eliminating duplicate payments would be quite small and would be offset by the higher cost of processing.

The PPSSCC also recommends that the VA aggressively pursue all means available to recover medical care costs from private third-party insurers and from individual veterans receiving treatment for non-service-connected conditions who have sufficient personal resources to pay for their care. One of the specific recommendations, the establishment of the means test authorized by Public Law 96-330, is already being implemented by VA. But this will disqualify applicants for admission, and savings would not occur from denying admission to these veterans until a sufficient number of beds had been vacated to permit closing down an entire bed section. In facilities with high and rising occupancy rates, beds vacated as a result of the means test would be filled with other qualifying veterans. Furthermore, since admission would be denied to veterans with valid health insurance coverage, there could be no cost recovery from third-party insurers. For these reasons, CBO's estimate of the savings possible under these proposals is only about half that of the PPSSCC.

Program Impact. The above estimate of savings resulting from the VA's use of a means test for certain applicants for hospital care assumes that 7 percent of hospital admissions and 1 percent of outpatient visits would be denied.

Implementation. Some Congressional action is likely to be needed for the implementation of each of these recommendations, except for the establishment of a means test, which is authorized under current law.

Additional Comments. GAO agrees with the PPSSCC conclusion that VA and Medicare payments for physician services should be governed by similar principles. A GAO survey of 5 of VA's 80 offices that process these claims revealed problems in setting and applying appropriate fee schedules. As a result, GAO found that VA paid full billed charges on about 62 percent of the claims. By comparison, in fiscal year 1982 the Health Care Financing Administration (HCFA) paid full billed charges on only 17 percent of the Medicare claims it received.

While GAO agrees with CBO that the data available are not sufficient for a reliable estimate of the budgetary impact of the proposal, it is confident that significant savings would result from the proposal's implementation.

References. PPSSCC, Task Force Report on Federal Hospital Management, pp. 213-35. GAO, Duplicate Payments for Medical Services by VA and Medicare Progress (HRD-80-10, October 1979). GAO, New Strategy Can Improve Process for Recovering Certain Medical Care Costs (HRD-77-132, September 1977). GAO, Cost Cutting Measures Possible If Public Health Service Hospital System Is Continued (HRD-81-62, June 1981).

PHASE OUT VA HEALTH-CARE FACILITY CONSTRUCTION (HOSP-5, PRIV-4)

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
Budget Authority	53	66	191	194	198	702
Outlays	47	93	124	119	143	526

PPSSCC Proposal. The commission recommends that the Veterans Administration (VA) stop constructing new nursing home facilities. Future VA needs for nursing home beds should instead be met in two ways: by converting available and underused acute-care (short-term) beds to extended-care use, and by additional contracting with private nursing home operators. Further, the VA Office of Construction should be completely reorganized with a substantial reduction in staff size, from the present 800 employees to 200. The agency should also contract with a private firm to design an improved construction planning system.

Budgetary Impact. The PPSSCC has estimated that more than $600 million could be saved over three years by a halt to new nursing home construction. The CBO analysis suggests, however, that the commission's estimate of savings may be overstated, because it is based on an incorrect assumption that the VA is required by statute to increase its number of nursing home beds by 5,000 before the end of 1987. In fact, however, the VA's latest medical facility construction plan anticipates requesting appropriations for construction of only 2,700 nursing home beds during that period, and very few of these will be completed before 1989. Thus, the PPSSCC has estimated that, under its plan, construction costs of $475 million could be saved by 1987, though the VA anticipates requesting appropriations during these years of only about $275 million for all nursing home construction.

On the other hand, the commission understates the number of acute-care beds that could be converted to nursing home care. It assumes conversion of only 2,600 beds. The CBO analysis indicates, however, that 3,000 acute-care beds--more than enough to fulfill VA plans through 1989--could probably be converted in the next five years without significant effect on the quality of short-term care in VA facilities. CBO estimates a net outlay reduction of $415 million by 1989 from converting all 3,000 beds.

Under the PPSSCC's assumption that 5,000 new nursing home beds will be required by 1988, 2,400 beds would still be needed after conversion of the initial 2,600 beds. The PPSSCC recommends that these beds be provided through increased contracting with private nursing home operators. As CBO assumes that all future long-term bed needs can be accommodated by conversion of acute-care beds, CBO sees no need for--hence no potential savings in--increased use of private nursing home care.

The PPSSCC has estimated that the reorganization and contraction of the VA's Office of Construction could save nearly $450 million over three years. CBO analysis assumes the same staff reduction to be feasible by attrition, producing savings in personnel costs of $114 million over five years.

Finally, the PPSSCC estimates potential savings of $210 million in construction costs from improved planning. Although CBO has not estimated savings attributable to better construction plans, a faulty assumption in the commission's calculation suggests that its estimate in this area may be overoptimistic. The VA bases its construction plans on recorded lengths of stay in private-sector facilities, not on durations of VA hospital stays as the commission assumes. As patient stays in private hospitals tend to be shorter than in VA hospitals, the VA seems already to be basing its construction plans on relatively conservative projected needs. Opportunity for economies in this area therefore appears more limited than the commission assumes.

Program Impact. The effects of these changes on veterans served by VA hospitals would be minor. Converting acute-care beds to nursing-home beds should, in general, have a positive effect on patient care, because patients not requiring acute care are probably more comfortable and more appropriately cared for in nursing homes.

Implementation. The VA is required by law to operate not fewer than 90,000 hospital and nursing home beds at all times. This restriction would have to be relaxed legislatively to enable the VA to take 3,000 acute-care beds out of operation to permit conversion within the time span envisioned. At the same time, though, the VA might encounter other difficulties in converting 3,000 acute-care beds to nursing home care. VA planners believe that a nursing home unit of fewer than 60 beds is inefficient for staffing and program purposes. But many VA hospitals have fewer than 60 underused acute-care beds. If such hospitals now lack nursing home wards that could be expanded in increments of fewer than 60 beds, conversion of the underused beds might be impracticable. Other proposals in this recommendation would not require legislative changes.

Additional Comments. In 1981, GAO proposed that the Congress consider allowing the VA to extend its advance planning fund to cover final design work on construction projects. GAO determined that this legislative change could shorten by up to 15 months the time needed for VA construction projects. It believes that this would be a better approach to improving VA construction management than the massive reorganization of the Office of Construction proposed by the PPSSCC. Although GAO's approach would require legislation, implementation after enactment would entail few--if any--operational problems. A reorganization of the Office of Construction, on the other hand, could be accomplished without legislative action, but it could entail major difficulties in implementation. A minimum of three years would be required for the full reorganization, and it would likely encounter opposition from current personnel.

References. PPSSCC, Task Force Report on Federal Hospital Management, pp. 105-123. PPSSCC, Task Force Report on Privatization, pp. 88-121. GAO, VA Should Consider Less Costly Alternatives Before Constructing New Nursing Homes (HRD - 82-114, September 1982). GAO, Sizing of Three VA Hospitals (HRD - 77-104, May 1977). GAO, Inappropriate Number of Acute Care Beds Planned by VA for New Hospitals (HRD - 78-102, May 1978). GAO, Opportunity to Reduce the Cost of Building VA Medical Facilities (HRD - 82-28, December 1981). CBO, Veterans Administration Health Care: Planning for 1990 (February 1983).

ELIMINATE EXCESS HOSPITAL CAPACITY (HEALTH -5)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The PPSSCC recommendation is not sufficiently specific for a budgetary impact estimate.					
Outlays						

PPSSCC Proposals. The PPSSCC has made three recommendations to reduce excess hospital capacity:

- o Regulations should be developed by the Health Care Financing Administration (HCFA) to implement Sections 2101 and 2102 of the 1981 Reconciliation Act. These sections address closing and converting underutilized hospitals and reducing reimbursement for inappropriate hospital stays.

- o Legislation should be enacted to limit Medicare reimbursement when hospital occupancy falls below 85 percent, to establish a maximum amount for the interest costs on new hospital borrowing, and to penalize excessive certificate-of-need approvals by imposing areawide investment caps.

- o Legislation should be enacted to replace tax-exempt hospital bonds with general obligation issues of state and local governments, which are also tax-exempt.

Budgetary Impact. The PPSSCC estimates that its proposal to implement Sections 2101 and 2102 of the 1981 Reconciliation Act would save about $900 million for the three-year period 1985-1987, whereas CBO estimates either no savings or a small cost. Paying hospitals for closure and conversion could have a small cost, but would have no savings because of the new prospective payment system. Under the old system of hospital reimbursement, closing hospital beds would have decreased hospitals' reasonable costs and thus reduced Medicare outlays. This does not occur under the prospective payment system, whereby hospitals receive a fixed payment for each ailment treated regardless of reasonable costs. In fact, the proposal would cost money if funds were spent on closing or converting hospitals. Section 2102 relates to reducing payments to Medicare for inappropriate hospitalizations. Specifically, it would reduce reimbursement for hospital patients who are waiting for nursing home beds from the per diem for the hospital to the per diem for a skilled nursing facility. Under the new diagnosis-related groups (DRG) system, this issue is less relevant because reimbursement is based on a per-case basis and not on a reasonable-cost basis.

The second proposal could save some money although neither CBO nor the commission is able to estimate the amount.

The third proposal could save money if general obligation issues were less available than tax-exempt financing. The PPSSCC assumes that tax-exempt financing for hospitals would decrease by 50 percent because of the limited availability of state and local general obligation issues, and save $660 million over the three-year period 1985-1987. However, if the hospital authority general obligation issues were too limited, hospitals could borrow the funds from other authorities such as industrial development authorities. While the shift from one form of tax-exempt financing to another could reduce the total amount of tax-exempt financing for hospitals, the exact savings amount would depend on the extent to which the alternative issues were limited. Because this proposal does not impose any specific limits on borrowing, CBO cannot estimate savings.

Program Impact. These proposals are designed to eliminate excess capacity and not to decrease access to care. However, limiting reimbursement for hospitals with low occupancy could reduce access to care in areas with few hospitals, such as rural communities.

Implementation. The regulatory proposal could be implemented by the issuance of regulations, but their relevancy is uncertain because of the new prospective payment system. The other two proposals would require legislation.

References. PPSSCC, Task Force Report on the Department of Health and Human Services, Public Health Service, Health Care Financing Administration, pp. 56-81.

IMPROVE PLANNING AND RESOURCE ALLOCATION IN VA HOSPITALS (HOSP-4)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The PPSSCC recommendations are not sufficiently specific for a budgetary impact estimate.					
Outlays						

PPSSCC Proposal. The commission proposes that the Veterans Administration (VA) should develop and utilize a hospital resource allocation and planning model based on diagnosis-related groups (DRGs). This model should be used both for short-term budgetary purposes (determining the size of appropriation requests and allocating amounts appropriated among facilities) and for long-range planning purposes (projecting future bed needs). The PPSSCC maintains that the use of such a model would result in savings, because it should enable the VA, first, to reduce the average length of stay (LOS) in its hospitals to that in private and community hospitals and, second, to increase the occupancy rate to 80 percent.

Budgetary Impact. The PPSSCC has estimated that the savings from this proposal would reach nearly $4.9 billion in the first three years. CBO and GAO expect that the savings are overstated but do not consider an accurate estimate feasible, because the savings would depend upon policy decisions that were not specified by the PPSSCC and that cannot be predicted.

Of the $4.9 billion in total savings, the PPSSCC estimates that $1.2 billion would result from an increase in the average occupancy rate of VA hospitals to 80 percent, the rate considered optimal for private and community hospitals. But according to the latest data available, VA hospitals currently operate at an average occupancy rate of 81.4 percent. Further, for planning purposes the VA uses a target occupancy rate of 85 percent. The use of an 80 percent target rate would not, therefore, result in savings.

If the use of a DRG-based resource allocation model enabled the VA to achieve its 85 percent target occupancy rate sooner than anticipated under current planning, some savings could be expected.

The PPSSCC has estimated that $3.6 billion would be saved over three years as a result of the reductions in the average LOS that would ensue from the use of a DRG-based model. The use of such a model in and of itself would not necessarily ensure a reduction in lengths of stay or in costs. The savings would depend on the cost factors assigned to each DRG and on the amount of increase permitted or reduction required in each cost factor over time.

A DRG-based model would, however, make it more expensive to leave a patient requiring only nursing care in an acute-care bed. As discussed elsewhere (under the recommendation "Phase Out VA Health-Care Facility Construction"), the VA system includes at least 3,000 excess acute-care beds, which could be converted to nursing-care use at a net five-year savings of $415 million. This would increase the occupancy rate of medical and surgical beds, while providing needed nursing-care beds.

The PPSSCC proposes that cost factors developed for private-sector hospitals be used to bring down VA costs, but concedes that the current cost factors typical of VA hospitals are not known. The VA, on the other hand, maintains that current VA cost factors are equivalent to or lower than those in the private sector. (Relevant data were not available for release, however.) Thus, the potential for savings is uncertain.

Program Impact. The use of a DRG-based model should provide incentives for greater efficiency and reduced lengths of stay. However, a DRG system might also allocate more resources than needed to the VA's major, tertiary care facilities.

Implementation. This recommendation involves administrative changes only and would require no legislation.

The VA has designed a DRG-based resource allocation model that will be utilized to a limited degree in allocating the fiscal year 1985 Medical Care appropriation among VA facilities. The model does not now assign cost factors to the DRGs, and therefore it is not being used to develop budgetary requests. While it does not yet cover outpatient and extended care, it is being expanded to do so. The model is neither designed nor intended to perform a long-range planning function. It would have to be adapted to include all of these areas in order to implement fully the PPSSCC proposal.

References. PPSSCC, Task Force Report on Federal Hospital Management, pp. 82-104. GAO, Sizing of Three VA Hospitals (May 1977). GAO, Inappropriate Number of Acute Care Beds Planned by VA for Chicago-Based Hospital (June 1978). GAO, Inappropriate Number of Acute Care Beds Planned by VA for New Hospitals (May 1978).

CONSOLIDATE FEDERAL HIGHWAY PROGRAM CATEGORIES (TRANS-6)

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
Budget Authority	123	42	44	47	49	305
Outlays	21	71	48	43	45	228

PPSSCC Proposal. The commission proposes consolidating into 12 the roughly 20 federal highway programs authorized in the Surface Transportation Assistance Act of 1982 and eliminating special-purpose programs that target funds to particular states or highway projects. In addition, the commission would take a block grant approach and turn back to the states administrative and operating responsibility for certain programs. It further proposes multiyear funding for contract authority programs and increased state opportunity for shifting funds among uses. (Two of the commission's highway recommendations are already part of current policy: two-year authorizations for the highway program began in 1921 and have been increased to the current four-year authorizations, and states already have more flexibility to transfer funds among programs than the commission proposes.)

Budgetary Impact. From the proposed consolidations, the commission estimates first-year savings of $297 million and $983 million over a period of three years; no savings are associated with the other recommendations. Two-thirds of the savings would stem from reduced funding for safety programs such as highway/railroad grade crossings. The commission implies that allowing states to set their own priorities would yield economies in highway spending. The remaining savings would be derived from cancellation of special-interest programs.

The CBO does not assume any savings would derive from consolidating safety programs, but its estimate does assume savings from elimination of the special-interest programs authorized in 1982. The CBO estimates that in 1985, $123 million in budget authority and $21 million in outlays could be saved by eliminating the Rail Highway Crossing Demonstration Program and other specific demonstration projects in California, Pennsylvania, and Illinois. In 1986 through 1989, the budget authority reduction, CBO estimates, would be less, because no funding is authorized after 1985 for the California and Pennsylvania projects.

CBO's analysis does not confirm that states would need less funding for highway safety if programs were consolidated. Though some states do not need as much money for specific programs as is currently apportioned (for example, the highway/railroad crossing program), the states can transfer up to 40 percent of the apportionment; a state that can show that the program's purposes have been met can transfer the full federal amount. A consolidated program, therefore, might not significantly change states' priorities. There is no evidence that states would reduce their safety-related projects; in fact, many observers suggest that states could use increased funding for hazard-elimination projects.

Program Impact. Considerable consolidation has already taken place, and the seven largest federal highway-aid programs now account for 88 percent of related authorizations. Further consolidations would give the states more opportunity to set their own priorities and to fund their programs accordingly. On the other hand, some states already use the existing transfer provisions to adjust their mix of programs; consolidation would probably have little effect on their programs. If special-interest programs were eliminated, some of the projects would be funded under other categories of federal aid, while others, if states accorded them low priority, would not be funded at all.

Implementation. Consolidating and/or eliminating highway programs would require legislative action, as would returning revenue to the states. The 1982 legislation provided contract authority for most of the highway programs, including many for special-interest projects; this authority would have to be rescinded to eliminate the programs. The President proposed a transportation block grant program (encompassing secondary and urban roads, as proposed by the commission) early in 1983, but the Congress has not yet acted on this plan.

Additional Comments. The GAO has favored consolidating closely related programs within a functional area, although it does not have any basis for evaluating the PPSSCC's estimates of savings.

References. PPSSCC, Task Force Report on Transportation, pp. 101-10. GAO, Consolidation of Federal Assistance Resources Will Enhance the Federal-State Emergency Management Effort (GAO/GGD - 83-92, August 30, 1983). GAO, Fundamental Changes Are Needed in Federal Assistance to State and Local Governments (GAO/GGD - 75-75, August 19, 1975).

IMPROVE PROCUREMENT POLICIES FOR THE STRATEGIC PETROLEUM RESERVE (ENERGY-7)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Off-Budget						
Budget Authority	70	50	60	70	40	290
Outlays	70	50	60	70	40	290

PPSSCC Proposal. The commission proposes that the Congress avoid the use of interim storage for the Strategic Petroleum Reserve (SPR). It would also exempt the SPR from the requirements of the Cargo Preference Act, which stipulates that most oil bound for the reserve be carried on U.S. flag ships. Transport on U.S. ships can be twice or even three times as costly as on non-U.S. vessels. Further, the PPSSCC recommends that the SPR be operated on a government-owned, contractor-operated (GOCO) basis; that certain items for future facilities not be acquired; and that the Congress approve fixed-price, lump-sum funding for future construction projects.

Budgetary Impact. The CBO estimates that the PPSSCC recommendations would save approximately $290 million in off-budget spending between 1985 and 1989 from exempting the reserve from cargo-preference requirements. Both CBO and the commission estimate that the cost of the Cargo Preference Act to the SPR is about $1.05 per barrel of oil. These savings correspond to the $213 million in three-year savings estimated by the commission. The CBO estimates less savings over the first three years because of a lower fill rate than the commission assumes.

The commission attributes another $1.07 billion to avoiding future costs, of which the largest is for interim storage. The commission assumes that oil purchases of 300,000 barrels a day would begin in 1983 and continue into 1984, which would require extensive interim storage. By filling the reserve at a rate of only 220,000 barrels a day, the commission estimates that $932 million in interim storage costs could be saved over three years. As a fill rate appreciably lower than the commission's rate of 220,000 barrels per day was approved for 1984, no savings, relative to the CBO baseline, can be achieved from implementing the commission's recommendations.

If the faster fill rate were effected at once, however, and maintained until the 500-million-barrel level was reached, CBO estimates that purchase and storage of an additional 4 million barrels of oil would be required in 1985 at a cost of about $125 million, of which only $5 million would be for interim storage. The CBO estimates lower costs for additional storage because of the availability of permanent capacity.

The commission also estimated savings of $124 million from not acquiring additional meters for each cavern. These are future purchases that could be avoided, however, not savings from current funding levels. No plans to acquire these additional meters currently exist.

Finally, CBO cannot estimate savings from operating the SPR on a GOCO basis, or from providing lump-sum funding for construction. The commission estimated that these two recommendations would save $27 million over three years.

Program Impact. Maintaining a SPR fill rate that could avoid use of interim storage is assumed in the baseline. Exempting SPR oil from the Cargo Preference Act would reduce the costs of acquiring oil and lower demand for U.S.-flag transports. No significant impact on the SPR program will result from the commission's other recommendations.

Implementation. The Congress has already approved and authorized funding for a fill rate of approximately 186,000 barrels of oil a day for fiscal year 1984--34,000 barrels a day less than the PPSSCC has used for its estimates. No interim storage has been used thus far. Legislation would be required to exempt SPR oil from the requirements of the Cargo Preference Act. The other recommendations would require Executive action with Congressional approval through both authorizing and appropriations legislation where additional funding might be needed.

Additional Comments. The GAO supports the commission's proposals for avoiding the use of interim storage and for awarding contracts on a fixed-price basis. As noted above, both proposals offer potential for curtailing future costs. The GAO also finds merit in the recommendation to exempt the SPR from requirements of the Cargo Preference Act. GAO believes that the Congress will need to consider both costs and benefits before acting on the recommendation. Cargo preference legislation provides a trade-off of higher government procurement costs in return for helping to ensure that U.S.-flag tankers are available for national security needs. In making its recommendation, the PPSSCC did not indicate that it considered either national security benefits or potential alternative maritime subsidy costs.

References. PPSSCC, Task Force Report on the Department of Energy, pp. 62-73. GAO, Status of Strategic Petroleum Reserve Activities as of December 31, 1983 (RECD - 84-92, January 13, 1984). GAO, Feasibility and Cost of Interim Storage for the Strategic Petroleum Reserve (EMD - 82-95, May 21, 1982). GAO, U.S. Strategic Petroleum Reserve at a Turning Point--Management of Cost, Oil Supply Problems, and Future Site Development (EMD - 80-19, January 2, 1980).

IMPROVE TIMBER SALES CASH MANAGEMENT (AG-41)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	170	275	190	-100	-110	425
Outlays	170	275	190	-100	-110	425

NOTE: Negative figures indicate budgetary costs.

PPSSCC Proposal. The commission proposes that the Forest Service impose a flat payment schedule on future timber contracts. In the past, and under most existing timber contracts, purchasers have been required to pay for timber only as it was being removed from the forest. Because the average duration of a timber contract was three to four years, and purchasers typically waited as long as possible before harvesting, the federal government did not receive payment for most of the timber sold until three to four years after the expenses of the sales preparation had been incurred. The effect of the PPSSCC proposal would be to accelerate Forest Service receipts; complete payment for a timber contract, however, would continue to take three to four years.

Budgetary Impact. The estimates above are based on historical information from the Forest Service and its timber-sale projections for the 1985-1989 period. The CBO assumes that, under the current contracting procedures, receipts over a four-year average contract would be 10 percent, 15 percent, 30 percent, and 45 percent of the contract value in each year, respectively.

Under the flat payment schedule, CBO assumes that bids on contracts would be an average of 10 percent lower than under the more flexible current practice. (This is based on data indicating that, with contract lengths shortened from five years to two years, bids have decreased by as much as one-third.) Receipts are expected to be realized at a rate of 25 percent per year over the four-year contract life. Assuming sales of 1.3-1.6 billion board feet annually, CBO estimates a net outlay savings of $425 million over five years.

The PPSSCC estimates savings of $150 to $160 million from timber sales made in each of the years 1983 through 1985. This estimate is on a present-value basis, rather than on a budgetary basis, and does not adjust for likely reductions in bids that would result from implementing its proposed change. In addition, the commission's estimate does not reflect recent changes in regulations governing the timing of timber sales payments, which accelerate the payment schedule.

Program Impact. Creation of a flat payment schedule would reduce the flexibility of timber purchasers to harvest in response to fluctuations in the timber market. This could cause bids to decrease on future contacts.

Also, because of the recent history of the timber industry--a number of years of speculative bidding in certain regions, followed by one of the worst slumps recorded--many companies now hold unprofitable contracts. Changes that would require earlier payments on new contracts now would create additional cash-flow problems for these companies.

Finally, the Forest Service is now holding the highest inventory of uncut timber volume under contract in history. Creating a system whereby new timber under contract had to be cut early (in preference to the older contracts) could undermine efforts to increase the cutting of timber already under contract.

Implementation. A flat payment schedule could be implemented administratively. Over the past few years, the Forest Service has already changed its contracting procedures to improve its cash-flow position. Requirements for a new contract now include a 10 percent deposit within ten days of a sale and payment of 25 percent of the sale value by the midpoint of the contract. Also, in region 6 (the Pacific Northwest), where a large percentage of the total federal timber receipts are realized, discounts for early removal are provided, and stumpage rates are adjusted over time. Immediate implementation of the PPSSCC's flat payment schedules on timber contracts could therefore cause confusion and lose the benefits of experience from the changes now under way.

Additional Comments. In GAO's view, it is inappropriate to make changes before the results of the Forest Service's revised payment regulations are evaluated. Since the regulations are designed both to accelerate cash flow and to encourage earlier timber harvest.

Reference. PPSSCC, Report on Department of Agriculture, pp. 188.

SELL UNNEEDED PUBLIC LAND (INT-1)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	10	15	25	35	45	130
Outlays	10	15	25	35	45	130

PPSSCC Proposal. The PPSSCC proposes accelerating the Bureau of Land Management's (BLM) Asset Management Program and depositing receipts from its land sales directly in the general fund of the U.S. Treasury.

The President has attempted to implement a similar proposal during the past several years. In 1982, he issued an executive order directing agencies to dispose of excess land and established a Property Review Board to implement this property sales initiative. In May 1983, the BLM issued new, simplified land-use planning regulations. Later, proposed changes to land-sales regulations were published, with the intention of making the sales process more efficient.

In August 1983, the Secretary of the Interior withdrew the BLM from the Asset Management Program in response to critical public reaction. Later that year, under the public lands disposal provisions of the Federal Land Policy and Management Act of 1976, however, the BLM offered more than 30,000 acres for sale. Only 10,000 acres were actually sold, for a total of about $3 million. For fiscal year 1984, the President requested $18 million to prepare for the sale of 250,000 acres; to date, the Congress has provided $3 million for the sale of 60,000 acres.

Budgetary Impact. The estimates shown in the table above reflect amounts CBO anticipates would be received from BLM sales of additional public lands, less the cost of those sales. These estimates assume that all funds necessary for land sale preparation are made available; they are based on information available from the existing BLM land sales program. Average value was determined by adjusting for inflation the average price per acre received in 1983. Sales volume was assumed to grow in 25,000-acre increments annually from the expected 1984 sales volume. Since the baseline reflects sales at approximately the 1984 level, estimated savings from this proposal are based on the assumed increases above the 1984 level, totaling 375,000 acres over five years. The CBO anticipates no savings from placing land sales receipts directly into the general fund of the Treasury, because the amount spent by the federal government will depend entirely on future Congressional appropriations.

The PPSSCC estimated net receipts of $900 million would be realized over three years. This estimate was based on the assumption that 11.5 million acres of land would be identified for potential transfer, and that one-third of this amount, or 3.8 million acres, would be sold at an average price of about $270 per acre.

To date, BLM has identified only 4.45 million acres of potentially saleable land, of which it estimates perhaps one-third could be sold. Because of the complexities surrounding the disposal of federal land, the process of identifying and selling such land is very time-consuming. As a result, despite the Administration's efforts to expedite land sales, receipts from such sales have fallen far short of original expectations. It is therefore very unlikely that sales approaching those assumed by the PPSSCC could be accomplished within a few years.

Program Impact. Implementation of this proposal would affect those parties using affected lands under permit for grazing, rights-of-way, or any other purpose. It would also affect state and local governments, because payments from the federal government in lieu of taxes would cease. (The appropriate government entity could, however, collect taxes that are not now available.)

Implementation. Under current law, much of the revenue from land sales goes to earmarked revolving funds (primarily, the Reclamation Fund). To implement fully the PPSSCC proposal, the law must be changed so that these revenues can go into the general fund of the Treasury. The proposal also suggests streamlining the existing land sales program; this would require revising existing regulations.

References. PPSSCC, Task Force Report on Department of the Interior, pp. 11. GAO, Letter Report to Chairman Jack Brooks pursuant to his request for comments on a draft bill entitled National Debt Retirement Act of 1982 (11CCPAD83, April 19, 1983). GAO, Report to Honorable Ken Kramer, Numerous Issues Involved in Large-Scale Disposals and Sales of Federal Real Property (CED - 82-18).

IMPROVE MANAGEMENT OF OUTER CONTINENTAL SHELF OIL AND GAS LEASING PROGRAM (LAND-1)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

PPSSCC Proposal. The Department of the Interior, through its Minerals Management Service (MMS), leases tracts on the Outer Continental Shelf (OCS) for oil and gas exploration by development companies. Companies bid for these tracts by offering bonuses, or up-front payments, and royalties, a percentage of the value of any future production from the tract. The PPSSCC proposes that the MMS continue to study and use alternative bidding systems, and use seven-year, rather than ten-year, lease terms for tracts in harsh environments. It further proposes that the MMS become an off-budget, independently funded entity within the Department of the Interior.

Under the Outer Continental Shelf Lands Act Amendments (OCSLAA) of 1978, the Secretary of the Interior was instructed to experiment with alternative bidding systems--for example, allowing royalty payments below the levels typically required by MMS--on 20 to 60 percent of the areas offered for sale in fiscal years 1979 through 1983. (Alternative systems were actually used in about 30 percent of these.) The OCSLAA also stipulates that primary lease terms for areas with adverse drilling conditions shall not exceed ten years, rather than the customary five. Although the Interior Department has chosen to issue ten-year leases for tracts in harsh environments, it has had the flexibility to choose intermediate term lengths between five and ten years since fiscal year 1979.

Budgetary Impact. The PPSSCC's proposal to require MMS to evaluate and use alternative royalty systems, without stipulating the number of tracts to be offered under these alternative systems, would have no budgetary impact because it would not affect current practices. The MMS already matches bidding systems to tracts based on their assessment of the risk inherent in each tract.

The PPSSCC assumed that 20 percent of the leases sold in 1983 used less than optimal bidding systems. The commission then took 20 percent of an estimate of all 1983 OCS receipts--including royalty payments and bonuses--and assumed arbitrarily that they were 5 percent lower than they would have been if the optimal bidding system were used. This led to an estimated 1983 revenue loss of $124 million. Such an estimate, however, should have been based only on lower bonus receipts, and should not have included royalties from leases previously sold. The PPSSCC then increased the loss by 10 percent each year, resulting in an estimated three-year loss of $410 million from using sub-optimal bidding systems.

Not only should the PPSSCC have applied its analysis to bonus receipts only, rather than to total OCS receipts (bonuses and royalties), but the analysis and estimates are necessarily arbitrary. The total effects of alternative bidding systems are unknown. The demand for OCS tracts could fall if higher bonuses are required. Moreover, lower bonuses could lead to greater receipts in the long run if they induce firms to offer higher royalties on oil and gas discovered and produced.

The PPSSCC anticipates increased receipts from shortening primary lease terms for tracts in harsh environments from ten to seven years, because production would occur sooner resulting in earlier royalty payments. But shortening primary lease terms could result in unleased tracts or in lower bonus bids for leased tracts. Firms operating under a ten-year primary term can already produce within seven years if it is economical to do so.

Moving the MMS off-budget would not affect the aggregate federal deficit and would not prevent the Congress from modifying the leasing schedule. Furthermore, off-budget financing is deceptive because it does not accurately reflect the true state of the federal government's finances in the unified budget.

The PPSSCC estimated three-year savings of $1.5 billion from placing the MMS off-budget, by calculating the interest on 80 percent of the estimated total value (bonus and royalties) of two lease sales recently cancelled by the Congress. This assumes that similar sale cancellations would continue to occur if MMS remained on budget but would not occur if MMS were off-budget. In fact, the Congress' ability to cancel these sales would be unaffected by the budgetary treatment of the MMS.

Program Impact. No substantial changes in the offshore oil and gas drilling program would be likely to occur.

Implementation. Although the requirement to experiment with alternative bidding systems in 20 to 60 percent of offshore oil and gas lease sales expired at the end of fiscal year 1983, nothing prevents the MMS from continuing to study and use those systems, as recommended by the PPSSCC. The Congress would have to enact legislation requiring the continued use of alternative bidding systems to ensure their use, however. GAO has issued a recent report analyzing the Department of the Interior's experience to date with alternative bidding systems, which includes a recommendation that such legislation be extended. The legislative authority to issue seven-year leases for tracts in harsh environments already exists. Congressional action would be required to establish the MMS as an independent, off-budget government entity funded by receipts from offshore oil and gas leasing activities.

Additional Comments. The Congress does not review Interior's five-year OCS leasing schedule every year as stated in the PPSSCC report. Review occurs only when the Secretary of the Interior proposes a major change in the schedule.

References. PPSSCC, Task Force Report on Land, Facilities, and Personal Property, pp. 3-13. GAO, Congress Should Extend Mandate to Experiment with Alternative Bidding Systems in Leasing Offshore Lands (RCED - 83-139, May 27, 1983). GAO, Interior Should Continue Use of Higher Royalty Rates for Offshore Oil and Gas Leases (RCED - 83-30, December 20, 1982).

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IMPOSE USER FEES FOR CERTAIN U.S. COAST GUARD SERVICES (PRIV-8, TRANS-19, USER-16)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Addition
Budget Authority	690	740	760	780	810	3,780
Outlays	690	740	760	780	810	3,780

PPSSCC Proposals. The PPSSCC has proposed that financing for the U.S. Coast Guard services that benefit identifiable groups of commercial shippers and recreational boaters be raised through user fees administered by the Department of Transportation (DOT). The Coast Guard activities identified by the commission include search-and-rescue (non-life-threatening only), short-range aids to navigation, radionavigational aids, domestic icebreaking, commercial vessel safety, port safety and security, marine environmental protection, and bridge administration. All of these activities are currently funded out of general federal tax revenues, with recoverable portions accounting for about one-quarter of total Coast Guard spending of $2.7 billion in 1985. (Other Coast Guard activities--notably, military preparedness and enforcement of laws and treaties--are excluded, since they are judged to be in the interest of the nation as a whole.)

The PPSSCC's two proposed user fee schemes, prepared independently by its User Charge Task Force and by DOT Task Force, both recommend separate sets of fees for recreational boats, fishing fleets, and other commercial vessels sailing on waters under Coast Guard jurisdiction. A third proposal, developed by the PPSSCC Task Force on Privatization, would transfer to the private sector operations in the areas of search-and-rescue (non-life-threatening), short-range navigational aids, and commercial vessel safety. A related plan advanced by the DOT Task Force suggests shifting to state or local governments such Coast Guard functions as vessel traffic services (VTS) systems in use at a number of ports.

Although the Administration has not included a Coast Guard user fee proposal in its budget for fiscal year 1985, it has in the past proposed such fees. One proposal, submitted in February 1982, called for $800 million a year in user fee collections to recover operating costs, and the most recent proposal called for initial fees of about $50 million for direct services (such as vessel inspections) for commercial mariners. The Congress did not act on these plans.

Budgetary Impact. The commission reports two three-year savings estimates for Coast Guard user fees: $1.57 billion by the DOT Task Force, and $418 million by the User Charge Task Force. The wide divergence results from different assumptions about what costs to recover and when. The DOT Task Force assumes full implementation of user fees beginning in the first year. By contrast, the User Charge Task Force would phase in fees over a five-year period: "direct" (service-specific) fees over the first two years, and "indirect" (systemwide) charges beginning in the third year. The DOT Task Force includes only operating and administrative overhead costs, whereas the User Charge Task Force specifies recovery of capital and other indirect costs.

The CBO savings estimate of $3.8 billion is based solely on the user fee options, since "privatization" of the same services would not yield additional federal budget savings. It combines elements of both PPSSCC user fee proposals: implementing all fees in the first year (DOT Task Force), including all associated capital costs (User Charge Task Force), and excluding life-threatening search-and-rescue from the category of recoverable costs (both task forces). The estimate assumes that 10 percent of civilian maritime search-and-rescue operations are non-life-threatening--the percentage used by both the DOT and User Charge Task Forces. (The Privatization Task Force, however, assumes that 80 percent of search-and-rescue incidents are non-life-threatening, and the User Charge Task Force believes that the 10 percent estimate needs further investigation.) In estimating recoverable capital and research costs, the CBO uses the estimated capital and research spending for each program. This differs from the approach taken by the User Charge Task Force, which uses an average across all Coast Guard programs. The PPSSCC savings estimates are based on 1982 spending levels, while CBO uses current baseline projections for 1985-1989.

If fees were phased in over five years as proposed by the User Charge Task Force, receipts would be $1.8 billion less than the $3.8 billion CBO estimates. Excluding capital costs would reduce receipts by about 11 percent. Using a higher (80 percent) estimate of non-life-threatening search-and-rescue missions would increase recoverable costs by $1.5 billion over five years. CBO estimates that if user fees were expanded to cover all costs for civilian maritime search-and-rescue activities, receipts would total $5.7 billion over the five-year period.

Program Impact. The user fee and privatization proposals would not jeopardize existing programs or weaken any Coast Guard operations significantly. Fees for recreational boaters would be small relative to total spending on boating and would average less than $20 per boat. Negative economic impacts could be more serious for commercial mariners and fishermen, who depend on the sea for their livelihoods. In particular, the U.S. fishing industry has not fared well in recent years, and immediate federal recovery of both operating and capital Coast Guard spending could increase this industry's costs by as much as 10 percent.

Implementation. Required legislation would include repeal of 46 U.S. Code 331, which prohibits the imposition of certain fees on commercial vessels. The Coast Guard Authorization Act for 1983 and 1984 directs the Coast Guard to study the possibilities for turning over to the private sector aspects of its program providing short-range aids to navigation.

The administration of Coast Guard user fees could be handled by federal and nonfederal agencies that already have fee-collecting mechanisms, or that have working relationships with the marine user groups concerned (for instance, the U.S. Customs Service for vessels engaged in foreign trade). Annual registration fees for recreational boats could be handled by the U.S. Postal Service or--since most states already have boat-numbering systems and recreational boating-safety programs--they might be administered by the states with federal supervision and financial aid.

Additional Comments. GAO supports the recommendation that user fees be established for Coast Guard services benefiting specific groups of civilian users. GAO also believes that transferring certain activities to state or local governments and contracting out selected functions to private firms could help the Coast Guard handle its growing workload, reduce costs, and redistribute resources to missions with the highest federal priority.

References. PPSSCC, Task Force Report on the Department of Transportation, pp. 241-56. PPSSCC, Task Force Report on User Charges, pp. 168-72. PPSSCC, Task Force Report on Privatization, pp. 181-97. GAO, The Coast Guard--Limited Resources Curtail Ability to Meet Responsibilities (CED-80-76, April 1980). GAO, The Congress Should Consider Exploring Opportunities to Expand and Improve the Application of User Charges by Federal Agencies (PAD-80-75, March 1980). GAO, How Effective Is the Coast Guard in Carrying Out Its Commercial Vessel Safety Responsibilities? (CED-79-54, May 1979). CBO, Charging for Federal Services (December 1983), pp. 47-60.

REDUCE COSTS OF POWER MARKETING ADMINISTRATIONS (PRIV-2, ENERGY-19, USER-5)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	0	280	875	905	960	3,020
Outlays	0	280	875	905	960	3,020

PPSSCC Proposals. The PPSSCC recommends reducing the costs of the five federal power marketing administrations (PMAs) in three ways: (1) require the PMAs to repay federal investments on a timely basis and at market interest rates; (2) charge a user fee for water used to produce electricity; and (3) sell the PMAs to nonfederal entities. 1/

--Repayment Reform. The federal investment in the power-related facilities of the PMAs totaled about $12 billion by the end of 1982. Under current law, the PMAs must repay this investment within a "reasonable period," and pay interest on the unpaid balance. The schedule for repaying the investments is determined administratively; interest rates also are set administratively, unless specified in a project's authorizing statute. The interest rate paid on these investments currently averages about 3 percent.

Administrative guidelines historically required repayments to follow a mortgage-type amortization schedule. Current policies only require that investments in generation and transmission facilities be repaid within 50- and 35-year periods, respectively. By the end of 1982, the cumulative repayments of three PMAs--Western, Southeastern, and Alaska--were consistent with an amortization schedule. The cumulative repayments of the

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1. The five PMAs in the Department of Energy are the Alaska Power Marketing Administration (Alaska), Bonneville Power Administration (Bonneville), the Southeastern Power Marketing Administration (Southeastern), the Southwestern Power Marketing Administration (Southwestern), and the Western Power Marketing Administration (Western). These PMAs sell and transmit the electricity produced from dams built and operated by the Bureau of Reclamation and the Corps of Engineers.

Bonneville and Southwestern PMAs, however, were $723 million and $131 million less, respectively, than would have been repaid under an amortization schedule.

The commission recommends that all PMAs be required to make up promptly all of the deficiencies in the repayment of federal investments, repay all remaining investments according to a straight-line amortization schedule, and pay the current Treasury rate on the unpaid investments, except where prohibited by law.

--User Charges. Under the commission's user charge proposal, the PMAs would pay for the benefit of using federal water resources to produce electricity. This fee would be analagous to the government's royalty from the production of federally owned oil and gas resources. Nonfederal utilities currently pay a user fee for the "use, occupancy, and enjoyment" of government dams and related facilities. The commission suggests that the PMAs be charged a fee equal to half of the difference between their cost of producing electricity and the value of the electricity to utilities in the area.

--Sale of Facilities. Finally, the commission proposes selling the power-related facilities of the five PMAs to nonfederal entities. The prospective purchasers--public utilities, cooperatives, or investor-owned utilities-- would pay the federal government for the facilities and would assume responsibility for marketing the electricity. The commission appears to assume, however, that federal agencies would continue to operate and maintain the dams because of their multipurpose nature. The prospective buyers would pay those agencies for their operating and maintenance costs, through a user fee like the one proposed above.

Budgetary Impact. CBO estimates that implementing these proposals would reduce federal outlays by $3 billion over the 1985-1989 period. These estimated savings are attributable to the repayment reforms and user charges. Selling the PMA facilities would not be likely to yield any savings until after 1989, because of the lead time needed to implement that proposal. The PPSSCC, on the other hand, estimates total savings of $20 billion in three years if the facilities are sold (PRIV-2), or $3-5 billion if they are not (ENERGY-19, USER-5, and PRIV-2). If the facilities are sold, the PPSSCC expects $15 billion as proceeds from selling the facilities, $3.2 billion as savings from ongoing interest subsidies as a result of the sale, and $1.3 billion as revenues from a user charge like the one discussed above.

--Repayment Reform. Savings from the proposed repayment reforms are estimated by CBO to total $1.2 billion over the five-year period. The PPSSCC estimates that savings would total $1.3 billion over a three-year period. CBO assumes that repayment deficiencies would be measured relative to the mortgage-type amortization schedule historically used by the PMAs, and that any deficiencies would be repaid over a five-year period. All remaining repayment obligations are assumed to be repaid according to a straight-line amortization schedule. The effect of charging the Treasury interest rate on unpaid obligations cannot be estimated precisely, because the current statutory limitations on interest rates vary from project to project, and data on those limitations are not readily available at this time. For this estimate, CBO assumes that the Treasury interest rate could be applied to at least 25 percent of the outstanding investments. Finally, CBO assumes that savings would not begin until fiscal year 1986, because of the lead time needed to revise administrative policies and to include the changes in PMAs' electric rates.

--User Charges. The outlay savings from the proposed user fee are estimated to total $1.8 billion over the five-year period. This compares with PPSSCC's estimated savings of $1.3 billion (PRIV-2) or $3.3 billion (USER-5) over a three-year period. The CBO estimate uses recent data from the Federal Energy Regulatory Commission (FERC) on the value of electricity to utilities in the regions served by the PMAs. The volume of hydroelectricity marketed by the PMAs and the average costs of that power are assumed to remain consistent with recent trends. No savings are expected to occur until fiscal year 1987, because of the lead time needed for the legislative, administrative, and regulatory actions.

--Sale of Facilities. Estimates of the potential savings from selling the PMAs depend on four highly uncertain factors: the lead time needed to complete the sales; the economic value of the investments to prospective purchasers; the legal prerequisites for the sale and marketing arrangements; and the ability of the purchasers to obtain financing.

CBO assumes that it would take at least five years to complete the legislative, administrative, contractual, and financial transactions involved in the sale of the PMA operations. This reflects the time needed for the Congress to repeal authorizing statutes, and to clarify such legal issues as the "preference rights" of public utilities to power produced at federal dams and the status of Bonneville's guarantee of bonds issued by the Washington Public Power Supply System (WPPSS). The government, as the seller, would need to prepare engineering, economic, and legal analyses before any competitive bidding or negotiations could take place. Prospective buyers would need to establish marketing and financing arrangements and to prepare their own technical analyses. After the government approved a sale, the new power supply arrangements would have to be approved by all parties to existing and future contracts. CBO also assumes that private financing would be contingent upon federal and/or state regulatory approvals of both the new service arrangements and the prices charged for the power.

Estimates of the potential savings after 1989 are very speculative. The revenues collected would depend on the value of the power to the more than 900 prospective buyers, and on the limits imposed by state or federal rate-setting standards. For example, the market value of the power to public utilities might be less than that to private utilities because public utilities would not earn a profit on the investment or obtain investment tax benefits. The price a utility paid for a PMA operation would also be subject to state or federal review as part of the rate-setting process. Although the standards used would vary among regulatory agencies, CBO assumes that the purchase would be compared with the least costly alternative investments. The PPSSCC estimates that the sale of PMA facilities would yield a total of $25 billion over five years which is equivalent to $780 per kilowatt of capacity. The likelihood of obtaining this price cannot be determined at this time, but CBO estimates that the average wholesale price of electricity under the PPSSCC assumption would still be less than the cost of power from coal-fired units.

Savings to the federal government from the sales would be offset by the loss of future PMA principal and interest payments. For example, if revenues from the sale were collected over a five-year period beginning in 1990, the net increase in revenues on present value basis would be about two-thirds of the sale value. The net budgetary impacts would also depend on the buyers' source of funding. Rural electric cooperatives, for example, finance virtually all of their generation and transmission investments through loans from the Federal Financing Bank (FFB). If the cooperatives purchased the facilities in proportion to their share of PMA electricity sales, the FFB would be expected to finance about $4 billion of the $25 billion in savings estimated by the PPSSCC. Federal revenues might also be affected by the use of tax benefits available to private utilities for such investments.

Like the PPSSCC, CBO assumes that the federal government could collect a user charge similar to the fee described above after the facilities are sold.

Program Impact. All three recommendations would increase the price charged for electricity from these federal facilities. For example, CBO estimates that the repayment reforms would increase Bonneville's costs by approximately $0.002 per kilowatthour (kwh), or 8 percent relative to current wholesale rates. The increases at the other PMAs are estimated to be much smaller. The proposed user charge is estimated to average $0.004 per kwh, and electric rates would be increased to cover this fee. Finally, selling the PMA facilities for an average of $780 per kilowatt would increase costs by less than $0.02 per kwh. This would represent about an 80 percent increase in the estimated average wholesale price currently charged by the PMAs, but average prices still would be less than the national average. These estimated price increases might be higher, to the extent that demand for electricity is reduced by the rising prices.

Selling the PMA operations also would affect state and local government debt-financing to the extent that publicly owned utilities purchased the facilities. If the public utilities purchased the facilities in proportion to their share of PMA electricity sales, state and local entities would be expected to finance over $10 billion of the $25 billion in revenues expected by the PPSSCC.

Implementation. Of the commission's three proposals, only one--repayment reforms--has received Congressional attention in recent years. Numerous committee reports have urged the PMAs, especially Bonneville, to improve their repayment performance. The repayment reforms described above could be implemented administratively.

It appears that Congressional action would be needed to implement both the user fee and the sale of the PMA operations. Without legislation authorizing a user fee, the PMAs may lack the authority to collect it in their rates, because it is not directly related to their costs of service or repayment obligations. Likewise, the Congress would need to repeal the PMAs' existing marketing and repayment obligations before the operations could be sold to nonfederal entities. CBO also assumes that contract negotiations could not be completed until the Congress addressed the statutory provisions on preference rights and federal guarantees of certain PMA contracts.

All three proposals would involve administrative action. To implement the repayment reforms, the agencies would need to revise existing repayment methodologies and electric rates. Similarly, the user fee would be implemented through a series of rulemakings on the fee and the revised rates. Finally, the sale of facilities would require studies, rulemaking proceedings, contract negotiations, and other administrative actions. The Department of Energy has discussed the possibility of selling the Alaska PMA with state officials.

Additional Comments. The PPSSCC's proposed repayment reforms are consistent with GAO's recommendations for improving Bonneville's repayment progress. FERC also has urged Bonneville to correct the shortcomings in its current repayment practices. The PPSSCC's user charge is consistent with FERC's proposed rules for assessing fees paid by nonfederal entities for the benefit of federal hydropower facilities. GAO in the past has suggested that the PMAs levy user fees or surcharges to price power at replacement cost, encourage conservation, and reduce the disparity in regional power rates. Since that time, however, Bonneville's situation has changed due to an economic recession and increased costs from WPPSS bringing the price of Bonneville's electricity more in line with its Northwest neighbors. Because of this, GAO does not support the PPSSCC proposal.

In its analysis of the proposal to sell the PMAs, CBO states that the PPSSCC appears to assume that federal agencies would continue to operate and maintain the dams. GAO finds little information in the report to support any assumption and believes that there are policy and practical concerns that need to be addressed on the various other purposes of federal water projects--navigation, flood control, irrigation, and fish and wildlife protection measures--before they can be defederalized. All of these purposes are carefully interrelated and need to be operated in concert. There is little discussion by the PPSSCC of how these activities will be carried out under nonfederal ownership. The PPSSCC merely states that contracts between the buyers and the federal government will be needed to ensure that these activities continue. Given the complexity involved in coordinating fish and wildlife activities, flood control, navigation, irrigation, and power production through contracting with different bodies, the federal government might receive greater benefits from more efficiently operating the present PMA system.

The major policy issue is the preference laws, which provide that the PMAs must give preference to public bodies and electric cooperatives in marketing power generated at federal facilities. Federally generated power is generally lower cost than other alternatives and trying to take away any preference to this power may be politically impossible given that federal power is marketed in 38 states.

References. PPSSCC, Report on the Department of Energy, the Federal Energy Regulatory Commission, pp. 133-39. PPSSCC, Report on User Charges, pp. 75-89. PPSSCC, Task Force Report on Privatization, vol. I, pp. 1-78. GAO, Policies Governing the Bonneville Power Administration's Repayment of Federal Investments Still Need Revisions (RCED - 84-25, October 1983). GAO, Letter, Improving the Repayment Study Interest Rate Practices of the Power Marketing Administrations (September 1983). GAO, Region at the Crossroads--The Pacific Northwest Searches for New Sources of Electric Energy (EMD - 78-76, August 10, 1978).

INCREASE PRIVATE PARTICIPATION IN THE COMMERCIAL USES OF SPACE (PRIVATE-3)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

PPSSCC Proposal. At present, the National Aeronautics and Space Administration (NASA) operates all U.S. space launches, including those using the space shuttles and expendable launch vehicles (ELVs). The PPSSCC proposes to increase private participation in the commercial uses of space by using private financing for a possible fifth space orbiter. The commission would also shift to private industry responsibility for future ELVs.

Budgetary Impact. Neither the PPSSCC nor CBO attributes any budgetary savings to these proposals, recognizing that increased private participation could produce possible future economies but not savings relative to the CBO baseline. On the basis of Congress' current policy, the CBO baseline assumes funding for acquiring four orbiters for the space shuttle program. As funding for a fifth orbiter would increase baseline spending, any private-sector participation would merely reduce these additional spending requirements. No savings would result from commercializing ELV operations, because NASA currently receives full reimbursement for commercial launches.

To secure private financing for the $2.3 billion cost of a fifth shuttle, the federal government would probably have to offer certain inducements to private investors, including tax benefits and flight guarantees. The costs of these provisions would vary according to the future demand for launch capabilities and the details of any agreement. Similar costs could be incurred with an agreement for a commercial ELV program.

Program Impact. The commission believes that its proposals would reduce costs, thus improving the competitiveness of the United States relative to foreign companies in the commercial uses of space. Its plan would also increase the number of orbiters and capabilities of the shuttle fleet. Commercializing ELV operations might, however, result in additional competition for commercial launches on the space shuttle. The government might be encouraging an alternative that could divert commercial satellites from the shuttle, reduce demand, and result in increased costs for the shuttle program. The ultimate impact would depend on the demand for commercial launches and the terms of the public-private operating agreements.

Implementation. The commission sees the need for legislation that would allow private financing of an orbiter and encourage private investment. These investments would be secured through tax credits, a guaranteed number of government flights, low rental rates on facilities, and no charges for previous government investments. NASA is currently seeking to shift to industry the responsibility for ELV operations.

Additional Comments. GAO believes that the recommendation warrants consideration. However, the focus of the PPSSCC's justification leading to the recommendation does not address the many policy and legal questions related to such a recommendation nor does it address the potential impact on government operations that a joint government/industry National Space Transportation System (NSTS) venture could have. Before the action is taken, the potential impact on national security, private-sector involvement in international controversies, and the potential for creating unfair competition to itself are examples of matters the government must consider in the commercialization of launch vehicles.

References. PPSSCC, Task Force Report on Privatization, pp. 72-87. GAO, Issues Concerning the Future Operation of the Space Transportation System (MASAD - 83-6, February 28, 1982).

REPEAL OR MODIFY DAVIS BACON ACT (LABOR-12, USAF-15, AND WAGE-1)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	850	900	940	990	1,040	4,720
Outlays	250	550	720	820	900	3,240

PPSSCC Proposals. Under the 1931 Davis Bacon Act as amended, the Secretary of Labor establishes minimum prevailing wage rates and fringe benefits to be paid by contractors engaged in federal construction work costing $2,000 or more. A network of related acts apply Davis Bacon requirements to construction projects financially assisted by the federal government. Although recent regulatory changes have modified or will soon modify practices that have raised wage determinations, it is claimed that the act still results in increased labor costs on federal contracts.

In its final report, the PPSSCC advocates repeal of the Davis Bacon and Copeland Anti-Kickback Acts. The latter law requires federal construction contractors to submit weekly payrolls to the federal government. As a fallback position, the PPSSCC suggests several reforms. It recommends that:

- The dollar threshold be increased to cover only construction projects over $1 million.

- The prevailing wage be defined to mean the range of wages within a local area. Currently, the Department of Labor (DOL) defines the prevailing wage as the rate paid to a majority of workers within a class; when no one rate is paid to a majority, the prevailing wage is based upon a weighted average of local wages.

- Unlimited use of semiskilled helpers be allowed.

- The Copeland Anti-Kickback Act be amended to permit the submission of a weekly statement of compliance in lieu of payroll records.

- o Rates for rural areas be set separately from those for nearby metropolitan areas and only wages on private projects be used in making determinations. Although the Secretary of Labor has been enjoined from making these changes, recent appeals court and Supreme Court decisions have upheld DOL's right to make them.

Budgetary Impact. Repeal of the Davis Bacon and Copeland Anti-Kickback Acts would reduce the wage level paid on federal projects, allow unlimited use of semiskilled helpers, eliminate the reporting and paperwork requirements now imposed upon federal construction contractors, and induce more competitive bidding. It would thus likely cause federal construction costs to fall. CBO estimates that the savings would total $4.7 billion in budget authority and $3.2 billion in outlays over the 1985-1989 period.

The savings are estimated by first inflating the value of contracts subject to the Davis Bacon Act in fiscal year 1983 by CBO's deflator for nonresidential construction. CBO estimates that 2.1 percent of this commitment level for new construction contracts would be saved by the repeal of the law. This proportion, adapted from a study by DOL, comprises savings of 1.5 percent from the act's wage effect, 0.4 percent from the act's labor use effect, and 0.2 percent from the act's compliance effect. These savings estimates represent reductions in budget authority or reductions in the cost of new federal construction contracts in a given year. Because most construction projects take several years to complete, the budget authority for a given year's stock of construction contracts spend out over several years, causing expenditure savings to be relatively small in the initial years.

These savings estimates are considerably smaller than those of the PPSSCC, which estimates that the repeal of the Davis Bacon Act would save $1.5 billion per year. It is assumed that these estimates represent reduction in budget authority. Since the PPSSCC made its estimates, the Supreme Court has upheld DOL's right to make certain changes administratively, thereby shrinking the potential savings from repeal. If these reforms were still enjoined, CBO's estimates of the budget authority impact of repeal would be very close to the estimates of the PPSSCC.

Implementation. Complete elimination of the Davis Bacon Act would require legislation. Numerous bills have been introduced in recent years to repeal or amend the act, but the only provisions to become law removed Davis Bacon requirements from the Head Start Program (Omnibus Budget Reconciliation Act of 1981) and extended the act's requirements to rehabilitation of highways (Surface Transportation Act of 1982).

Increasing the cost threshold, allowing unlimited use of helpers, and eliminating the weekly payroll submission requirement would require Congressional action. Changing the methodology by which prevailing wages are determined could be carried out by issuing new regulations. The remaining recommendations have recently overcome a judicial challenge by the AFL-CIO and will soon be implemented administratively by DOL.

Additional Comments. Because of (1) significant increased costs to the federal government, (2) the impact that excessive wage determination rates have on inflating construction costs and disturbing local wage scales, and (3) the fact that contractors tend to pay prevailing rates--the intent of the act--when determinations are too low, GAO believes that the PPSSCC recommendations have merit and the Congress should adopt them. PPSSCC's final report's recommendations on Davis Bacon are in fact similar to those GAO has made in several reports to the Congress. If the Davis Bacon Act is repealed, GAO believes that the Secretary of Labor should consider periodically reviewing construction contracts awarded by the government to assess whether any egregious situations occurred affecting the employees working on contracts.

In the absence of repeal, GAO favors PPSSCC's recommendation that the Congress amend the Davis Bacon Act to raise the threshold of contracts covered by the act. In fact, in a July 1971 report, GAO recommended that the Congress raise the threshold to an amount between $25,000 and $100,000.

PPSSCC argues that the Copeland Anti-Kickback Act requirements will become superfluous if the Davis Bacon Act is repealed. Although GAO has recommended that the Congress rescind the weekly payroll requirements of that act, it has not taken a position or made a recommendation on its repeal.

References. PPSSCC, Task Force Report on the Department of Labor, pp. 91-102. PPSSCC, Task Force Report on the Department of the Air Force, pp. 133-37. PPSSCC, Management Office Report on Wage Setting Laws, pp. 16-64. GAO, Need for Improved Administration of the Davis Bacon Act Noted Over a Decade of General Accounting Office Reviews, (B-146842, July 1971). GAO, The Davis Bacon Act Should Be Repealed (HRD-79-18, April 1979). GAO, Review to Determine Whether the Davis Bacon Act Has an Inflationary Impact and Increases Costs on Metro Construction (HRD-81-10, HRD-81-11, October 1980. CBO, Modifying the Davis Bacon Act: Implications for the Labor Market and the Federal Budget (July 1983).

REPEAL OR MODIFY THE SERVICE CONTRACT ACT
(USAF-14, LABOR-14, WAGE-3)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	39	41	43	45	47	215
Outlays	37	41	43	45	47	213

PPSSCC Proposals. The Service Contract Act (SCA) extends labor standards protection to employees of contractors and subcontractors furnishing services to the federal government. Specifically, the SCA requires that service employees working under federal contracts totaling more than $2,500 be paid wages and fringe benefits based upon the rates the Secretary of Labor determines as prevailing for service workers in the locality.

The PPSSCC claims that the SCA suffers from several defects that cause federal service contract costs to be higher than they would otherwise be. It maintains that:

- o The SCA is often applied to contracts that only incidentally provide for the delivery of services.

- o The prevailing wages as promulgated by the Department of Labor (DOL) are based upon inadequate data sources and are frequently inaccurate.

- o DOL often defines "locality" too broadly.

- o The "successor provision," which requires a contractor who succeeds another contractor covered by the SCA to pay his workers wages and fringe benefits at least as high as those of the first contractor, can violate collective bargaining agreements and inflates federal costs.

- o The "variance procedures," which purportedly provide a means to correct inaccurate wage determinations, are unwieldy and time-consuming.

- o The SCA has been expanded to cover industries that historically have protected their labor standards and only minimally supply services to the government.

- o The "due consideration clause," which compels DOL to consider federal wage levels for comparable jobs in making wage determinations, is unnecessary and not cost-effective.

In its final report, the PPSSCC urges the Congress to repeal the act. In the absence of repeal, however, the PPSSCC recommends that:

- o The dollar threshold be raised to cover only contracts over $100,000.

- o A maximum wage determination be incorporated into the statute.

- o The terms "prevailing" and "locality" be redefined.

- o The "successorship provision" be stricken.

- o The "due consideration clause" be stricken.

- o Wage determinations consider such issues as merit pay, entry-level pay, and the like.

Budgetary Impact. The savings achievable from repeal of the SCA are estimated by first inflating the value of contracts covered by the SCA in fiscal year 1983 by CBO's deflator for federal purchases of services. Based upon a DOL analysis of the impact of modifying SCA regulations, CBO estimates that 10 percent of the dollar volume of contracts subject to the SCA is attributable to labor costs, and that SCA coverage raises labor costs by 4.2 percent over what they would otherwise be. Applying this percentage to the wage bill associated with federal procurement of services, CBO projects that repeal of the SCA would save $39 million in fiscal year 1985 and $215 million in budget authority over the 1985-1989 period, with outlay savings lagging slightly, reflecting the spendout rate for each year's stock of new service agreements.

These savings estimates are substantially lower than those of the PPSSCC, which estimates SCA repeal would save $1 billion per year. Because the PPSSCC does not detail the methodology it used to reach its estimates, the reasons for the difference cannot be determined. However, the PPSSCC states that it assumed that 75 percent of the cost of service contracts is related to labor, and this could be a major reason for the difference.

Program Impact. Repeal of this act would likely cause wage rates paid to service workers employed on federal contracts to drop, thereby causing higher-wage service providers, possibly including union employers, to suffer a competitive disadvantage in the bidding on contracts.

Implementation. Legislation would be required either to repeal or to modify the SCA in the ways recommended by the PPSSCC. In the 97th and 98th Congresses, several bills amending the SCA were introduced; all but one would have expanded SCA's coverage of either service employees or contracts. The exception would have abrogated all federal authority to regulate private-sector wages. The Congress has not acted on any of these bills.

DOL is in the process of implementing a set of regulations that will meet some of PPSSCC's criticisms of the SCA. The new regulations exempt contracts for maintenance and repair of automated data processing and high-technology equipment from SCA coverage; make the successorship provision apply only when the second contract's work is performed in the same area as the first's; exempt from SCA coverage those contracts whose principal purpose is not procurement of services; and narrow the interpretation of "locality." A U.S. District Court decision on January 27, 1984, upheld DOL's revised regulations. An appeal by the AFL-CIO and eight affiliated organizations is pending.

Additional Comments. GAO believes that the PPSSCC recommendation for repeal of the SCA has merit and endorses it as the first option. In a January 31, 1983, report, GAO cited many of the same problems inherent in the SCA as did the PPSSCC and suggested that the Congress consider repealing the act and amending the Fair Labor Standards Act to ensure continued federal minimum wage coverage for all employees on federal service contracts. GAO further recommended that, if the SCA were repealed, the administrator of federal procurement policy implement administrative procedures to protect the wages and fringe benefits of employees working on federal service contracts. Furthermore, if the administrator determined that repeal had an adverse impact on service workers, GAO recommended that he or she develop administrative policies or legislative remedies to correct the problem.

Although the PPSSCC's proposed modifications of the SCA and DOL's new regulations are far short of the repeal action it recommended, GAO believes that the modifications would correct or alleviate some longstanding contract coverage problems it had identified, and would, if properly implemented, result in substantial savings. In fact, in a September 1980 report, GAO recommended that the Congress amend the SCA to ensure that the act excluded coverage for automated data processing and other high-technology industries' commercial product-support services.

References. PPSSCC, Task Force Report on the Department of Labor, pp. 110-17. PPSSCC, Task Force Report on the Department of the Air Force, pp. 126-32. PPSSCC, Task Force Report on Wage Setting Laws, pp. 111-50. GAO, Special Procurement Procedures Helped Prevent Wage Busting Under Federal Service Contracts in the Cape Canaveral Area (HRD-78-49, February 1978). GAO, Service Contract Act Should Not Apply to Service Employees of ADP and High-Technology Companies (HRD-80-102, September 1980). GAO, Assessment of Federal Agency Compliance with the Service Contract Act (HRD-82-59, July 1982). GAO, The Congress Should Consider Repeal of the Service Contract Act (HRD-83-4, January 1983).

REPEAL OR MODIFY THE WALSH-HEALEY PUBLIC CONTRACTS ACT (LABOR-13, USAF-17, AND WAGE-2)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	520	550	570	590	620	2,850
Outlays	60	260	460	530	580	1,890

PPSSCC Proposals. The Walsh-Healey Public Contracts Act provides minimum labor standards for workers employed on federal contracts exceeding $10,000 for the manufacture or furnishing of materials, supplies, or equipment. Specifically, contractors covered by the act must pay wages not lower than the minimum wages determined by the Secretary of Labor as prevailing in the area, and must pay an overtime wage premium for work over eight hours a day and over 40 hours a week. The Contract Work Hours and Safety Standards Act mandates premium pay for work over eight hours in a day for mechanics and laborers working on government construction contracts.

In its final report, the PPSSCC recommends that the Congress repeal the Walsh-Healey Act and remove the daily overtime requirements in the Contract Work Hours and Safety Standards Act. If repeal of Walsh-Healey cannot be achieved, the PPSSCC suggests several alternative amendments. First, it recommends that the law be amended to eliminate the requirement for overtime pay for workdays exceeding eight hours. Since a U.S. Court of Appeals decision in 1964, the Department of Labor (DOL) has not issued any wage determinations and in effect is not enforcing the prevailing wage determination provisions of the act. Because of this, elimination of the overtime pay requirements would be virtually tantamount to repeal. Second, if neither repeal nor overtime premium elimination can be accomplished, the PPSSCC recommends either raising the cost threshold to $1 million or exempting from coverage firms with 100 or fewer employees.

Budgetary Impact. Repealing the Walsh-Healey Act would eliminate the overtime pay requirements. In addition to the direct effect on overtime pay, removal of these requirements would probably cause federal contract costs to drop by encouraging more firms to bid on government contracts and by prompting companies currently covered by Walsh-Healey to examine alternative, and perhaps more efficient, work schedules.

Although repealing or amending the act could reduce the cost of federal contracts, sufficient information does not exist to permit a precise estimate of the budgetary impact. If it is assumed, however, that productivity increases from this change would reduce new contract costs by 0.5 percent, budget authority savings would be about $520 million in 1985 and $2.85 billion over the 1985-1989 period. These savings are estimated by inflating the value of contracts subject to the Walsh-Healey Act in fiscal year 1983 by CBO's deflator for federal purchases, and by assuming that 0.5 percent of this value is saved each year. Because about 90 percent of federal contracts subject to Walsh-Healey provisions are for military material and equipment purchases, which take several years to be completed, the budget authority for a given year's contracts spend out over several years. This causes outlay savings to be relatively small in the initial years and to accumulate over time.

Using two methodologies, the PPSSCC estimated that repeal would save either $1.36 billion or $670 million per year. CBO's savings estimates differ from those in the PPSSCC volumes, because the PPSSCC did not annually inflate the value of Walsh-Healey contracts and used a different assumption for productivity gains. Although the PPSSCC did not identify the savings estimates as being reductions in budget authority or outlays, it appears that they represent the former.

Program Impact. Repealing or amending the act and thereby eliminating the daily overtime pay requirement could place unionized firms that have negotiated a daily overtime premium at a competitive disadvantage in competing for federal contracts. In addition, employees of firms with Walsh-Healey contracts who work over eight hours per day but fewer than 40 hours per week could suffer a drop in wages.

Implementation. Repeal of the act would require legislation. Bills rescinding the eight-hour overtime requirement were introduced in the 95th, 96th, 97th, and 98th Congresses. None was reported out of committee, and one that got to the Senate floor as a rider was defeated.

Additional Comments. GAO has not performed any audit work or issued any reports dealing with repealing the Walsh-Healey Act. GAO believes that the PPSSCC's other recommendations have merit. In April 1976, GAO concluded that strict adherence to fixed five-day schedules was not always to the advantage of employees and employers. GAO stated that persons desiring certain altered work schedules do not always find the current overtime payment requirements to their best advantage. Therefore, it recommended that the Congress consider legislation to amend the Walsh-Healey and Contract Work Hours and Safety Standards Acts to permit greater use of altered work schedules.

References. PPSSCC, Task Force Report on the Department of Labor, pp. 103-9. PPSSCC, Task Force Report on the Department of the Air Force, pp. 150-55. PPSSCC, Task Force Report on Wage Setting Laws, pp. 67-109. GAO, Application of the Walsh-Healey Act to Small Business Firms Bidding for Department of Defense Contracts (PSAD-76-88, April 1976). GAO, Contractors Use of Altered Work Schedules for their Employees--How is it Working? (PSAD 76-124, April 1976).

ENCOURAGE ELECTRONIC TRANSFER OF FEDERAL FUNDS (ASSET-6)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	1,150	10	10	10	10	1,190
Outlays	1,150	10	10	10	10	1,190

PPSSCC Proposal. According to the PPSSCC, additional incentives for direct deposit/electronic funds transfer (DD/EFT) of federal payroll and benefit disbursements, such as Social Security, should be established by the Department of the Treasury. The Treasury is already encouraging voluntary governmental use of this payment method. Besides eliminating forgeries and check thefts or loses, DD/EFT improves the timeliness and accuracy of federal financial reporting and facilitates tracing of payments.

Rather than mandate use of DD/EFT, however, the commission's proposal would encourage its use by mailing payroll or benefit checks on the date they are due to be paid, instead of mailing checks in time to arrive on the scheduled payment date, as is current federal practice. Disbursements by DD/EFT would be made on the payment due date.

Budgetary Impact. Conversion to DD/EFT would save the federal government processing costs. Assuming that 2 percent of payroll and benefits are converted in 1985, and a total of 7 percent by 1989, at a savings of 21 cents per disbursement, the Treasury would save approximately $5 million in 1985, increasing to over $10 million in 1989.

Because relatively little voluntary conversion to DD/EFT is likely, the major budget impact of the PPSSCC proposal results from the change in mailing date for payroll and benefit checks. Assuming a steady flow of federal payroll and benefit disbursements throughout the fiscal year, CBO estimates that the mailing of checks an estimated three days later than is current practice beginning in fiscal year 1985 would result in a one-time outlay reduction in 1985 of approximately $1.15 billion.

The PPSSCC estimates the three-year cumulative savings to be $1.9 billion for slowed cash disbursements and $0.6 billion for reduced interest costs. Although the PPSSCC proposal would encourage the use of DD/EFT incentives, its savings estimates assumed no conversion from mail to DD/EFT. As a result, a larger cash flow, or budget savings, was generated relative to the CBO estimate. In addition, CBO adjusted salary, payroll, and benefit distribution data to reflect fiscal year 1983 historical experience.

Program Impact. Although a number of benefits--to the federal government, to banks, and to individuals--would result from DD/EFT of payroll and benefit checks, public opposition to delayed payments remains strong. A survey conducted by the Treasury suggests that approximately 35 percent of all pay check and benefit recipients would not voluntarily switch to DD/EFT. Organizations representing both federal workers and senior citizens (the latter, being concerned largely as Social Security recipients) would likely oppose a delay in receiving checks. People without bank accounts--an estimated 12 percent of all payees--would probably incur additional bank service charges upon conversion to DD/EFT; this could present a hardship to those with relatively low incomes.

Implementation. While the Treasury is encouraging voluntary use of DD/EFT for both benefit and payroll disbursements, it is also officially proposing statutory changes requiring mandatory participation in DD/EFT for federal payroll disbursements. Mandatory benefit payments by DD/EFT--in particular for Social Security benefits--would require legislative action, as the U.S. Code specifies the medium of payment for Social Security to be in the form of checks. Meantime, the Treasury is planning to continue its voluntary campaign to enlist increased participation by benefit recipients.

References. PPSSCC, Task Force Report on Cash Management, pp. 119-27. GAO, Millions Paid Out in Duplicate and Forged Government Checks (AFMD - 81-68, October 1, 1981). GAO, Electronic Funds Transfer--Its Potential for Improving Cash Management in Government (FGMSD - 80-80, September 19, 1980).

REDUCE THE SIZE OF GOVERNMENT VEHICLE FLEETS (PRIV-7)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	160	130	15	-35	140	410
Outlays	160	130	15	-35	140	410

NOTE: Negative figures indicate costs.

PPSSCC Proposals. Federal departments and agencies own and operate about 430,000 civilian vehicles; more than one-fourth belong to the U.S. Postal Service. Sedans and other passenger vehicles account for about one-third of nonpostal vehicles, while light trucks account for most of the rest. On the basis of the limited data available, the PPSSCC concludes that agencies underutilize their vehicles and could reduce costs through better management information systems. In addition, the PPSSCC recommends immediately disposing of 100,000 vehicles. Data contained in the PPSSCC report suggest a reduction of an additional 100,000 vehicles in later years. Altogether, the inventory could fall to half its current level.

Budgetary Impact. CBO estimates that near-term cutbacks in the number of nonpostal government vehicles could generate budgetary reductions of $410 million in the 1985-1989 period. (Impacts on postal vehicles are not considered because the U.S. Postal Service is an off-budget agency.) The savings reflect a 15 percent reduction, totaling 44,000 vehicles, and would mainly occur by curtailing purchases of replacement vehicles by about two-thirds in 1985 and 1986. The estimate assumes sedans and passenger vehicles on average would be driven 15,000 miles per year, and that light trucks (because of their unique uses) would average 10,800 miles per year--proportionate increases over their current averages. (The net savings estimates take account of accelerated replacement of vehicles because the increased use would shorten their retention period. This acceleration shifts disposals and replacements to earlier years, but has little budgetary impact in the estimating period because some extra costs in the first four years would about offset reduced costs in the fifth year.)

The five-year cumulative CBO savings represent only about one-fourth of the $1.5 billion in three-year savings estimated by PPSSCC. Most of the difference reflects about equally CBO's exclusion of the postal fleet, of heavier trucks and other special purpose vehicles, and of possible savings from acquiring better management information or from increased voluntary use of privately owned vehicles. The lower utilization target assumed by CBO for government trucks also accounts for a significant portion of the difference in estimates. The estimated impacts assume that reductions would be achieved by curtailing vehicle replacements rather than by accelerating disposals. (The lower CBO estimates also measure impacts largely on the basis of reduced outlays for future purchases rather than on combined measures of sale proceeds, interest avoided, and noncash depreciation charges incorporated in the PPSSCC estimates.)

Program Impact. The eventual 50 percent cutback recommended by PPSSCC would require that all government vehicles average 15,000 miles per year as compared to the 12,200 currently averaged by government sedans and other passenger vehicles, and the 8,800 averaged by light trucks. The size of the reduction target reflects two other assumptions: all vehicles in the inventory would be placed in service--virtually eliminating the downtime reflected in the difference between the number of owned vehicles and the in-use inventory; and use of privately owned vehicles would increase somewhat. The target of 15,000 average miles per year appears conservative in the light of information from private rental firms, but a lack of data regarding federal transportation requirements makes it impossible to determine whether the government could achieve this standard.

Reducing vehicle fleets would eventually require agencies to change procedures and could curtail the effectiveness of some programs, especially in the management of natural resources. Over two-thirds of the vehicles maintained by the Departments of Agriculture, Energy, and Interior, as well as by the Corps of Engineers and the Tennessee Valley Authority, consist of trucks often used in remote areas where winter weather, geographical dispersion of job sites, and work requirements undoubtedly limit opportunities for improving efficiency.

Implementation. The Executive Branch could itself implement the PPSSCC recommendations. Already, GSA is taking action to improve fleet management through development of management information systems, consolidation of fleet management, and investigation of the feasibility of vehicle leasing versus ownership. Pending legislation (S. 1798) would make such improvements in information systems mandatory and would reduce by $100 million the amounts budgeted in 1985 for vehicle operation, maintenance, and acquisition. To achieve immediate reductions in fleet sizes, agencies could sell existing vehicles before their scheduled disposal or, more efficiently, could cut back purchases of replacement vehicles. Longer-term reductions would mainly occur through curtailment of future purchases.

Additional Comments. In 1974, GAO recommended improved vehicle management information systems. Without such systems, GAO argues, the optimum size of agency vehicle fleets cannot be determined and across-the-board reductions, as reflected in PPSSCC estimates, are inappropriate.

References. PPSSCC, Task Force Report on Privatization, pp. 162-80. GAO, How Passenger Sedans in the Federal Government Are Used and Managed (B-158712, September 1974). GAO, Opportunities To Reduce the Cost of Government Vehicle Operations (LCD - 77-215, February 1978).

MAKE TIMELY FEDERAL PAYMENTS FOR PROCUREMENT AND GRANT PROGRAMS (ASSET-4)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

PPSSCC Proposal. The PPSSCC makes three recommendations regarding federal expenditures for procurement and grants. First, purchase vouchers should all be marked with a suspense date before being submitted to the Treasury Department; the Treasury should pay bills on that date--not earlier or later. Second, the Treasury should implement a system to ensure that grant funds are not being invested by state governments before disbursement for grant purposes. The PPSSCC recommends contracting for such a system until the Treasury is able to implement its own. Third, section 203 of the Intergovernmental Cooperation Act of 1968 (Public Law 90-577) should be amended to allow the Treasury to impose penalties and interest charges on states that misuse federal grant funds.

Budgetary Impact. The proposal to mark purchase vouchers with a suspense date before submitting them to the Treasury represents current practice. It is likely that the savings possible from this proposal have already been achieved.

In arriving at its estimated $1.3 billion net savings estimate for three years, the PPSSCC relied on data regarding early and late payments contained in a February 1978 GAO report and extrapolated that payment behavior to the present. In fact, it appears that the Prompt Payment Act of 1982 (Public Law 97-177) has significantly modified agencies' payment behavior. The act was intended to discourage agencies from making tardy payments, by requiring them to pay bills on time (with a 15-day grace period), or to pay interest penalties if payments are late. Preliminary results of the mandatory-interest program's first year of operation indicate that late payments in fiscal year 1983 were significantly lower than they had been in previous years.

The Treasury is currently implementing a system for grant programs that would not release federal grant money until a check for grant-related activities is actually cashed. This system should be substantially in place by about the end of 1985. The magnitude of the savings resulting from this system cannot be accurately assessed. The Bureau of Government Financial Operations has no data on the amount of grant funds that the states have drawn upon early. At any rate, because the program is already being implemented, savings are implicit in the CBO baseline. The PPSSCC's estimated three-year savings of $1.1 billion is based on a one-time cash flow savings of $943 million and interest thereon, extrapolated from a Department of Health and Human Services study of grant programs. But current information does not provide a test of the accuracy of extrapolating from one department to all other federal departments.

With respect to state misuse of federal grant funds, it would seem that, once the Treasury has finished implementing its system for releasing grant money, there would be no significant savings from amending the Intergovernmental Cooperation Act.

The PPSSCC extrapolated from a Joint Financial Management Improvement Program study of four states to project the portion of total grant money that was drawn down early by all states. This portion was assumed to remain constant across states, with a potential estimated three-year savings of $1.1 billion. But early drawdowns should not continue to be a problem once the Treasury control system is implemented. Furthermore, even if early drawdowns continue for some time, it would be reasonable to assume that states would do so less frequently once they are assessed penalties and interest charges.

Program Impact. According to the Bureau of Government Financial Operations, grant programs currently operate on a letter-of-credit (LOC) system and states can receive advance payment for three days of monetary needs. This results in a "float" period between the time the money is advanced and the time it is spent, during which the Treasury could otherwise be earning interest. State governments that routinely invest federal grant money in escrow accounts before disbursing the funds are able to reap interest windfalls. Implementing wire transfers of money will eliminate states' windfalls. In addition, some state constitutions require that federal money be in a state account before the state can issue checks for federally supported programs. A conflict will result for these states if federal grant funds cannot be transferred to states' accounts until needed for cashed checks.

Implementation. Since April 1983, all agencies have been required by regulation to attach due dates to their vendor payment vouchers submitted to the Treasury. In addition, the Treasury has been stressing to agencies the need to avoid early payments. On the other hand, the Prompt Payment Act appears to have decreased late payments significantly. Perhaps a similar legislative requirement that agencies pay interest losses on early payments would decrease the magnitude of such payments.

The Administration currently plans, over the next year or two, to put agencies on an LOC system with wire transfer of money, so that agencies can monitor payments before they are made, and states will not be able to draw federal grant funds before they are needed. Some agencies are currently using the LOC-wire transfer system for some of their grant programs. Since the program is gradually being implemented, it would not seem worthwhile to contract out a similar service.

Congressional action would be necessary to amend section 203 of the Intergovernmental Cooperation Act to allow the federal government to charge interest to states that draw grant funds before corresponding checks are cashed. Such an amendment would be superfluous, however, once an LOC-wire transfer program for grants is implemented.

References. PPSSCC, Task Force Report on Cash Management, pp. 55-63. GAO, Electronic Funds Transfer--Its Potential for Improving Cash Management in the Government (FGMSD - 80-80, September 19, 1980). GAO, The Federal Government's Bill Payment Performance Is Good But Should Be Better (FGMSD - 78-16, February 24, 1978). GAO, Actions to Improve Timeliness of Bill Paying by the Federal Government Could Save Hundreds of Millions of Dollars (AFMD - 82-1, October 8, 1981).

IMPROVE VERIFICATION OF APPLICANTS' ELIGIBILITY FOR HOUSING SUBSIDIES (HUD-5)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

PPSSCC Proposal. Applicants' household income figures heavily in eligibility to participate in rental assistance programs operated by the Department of Housing and Urban Development (HUD). Recipients qualify if their adjusted incomes fall at or below 80 percent of the area median income. Significant numbers of ineligible tenants, however, occupy HUD-assisted dwellings, according to studies conducted by the HUD inspector general. The PPSSCC attributes this to HUD's inability to verify income information supplied by program applicants. It therefore proposes three steps to solve the problem:

- o Computer-matching procedures that would allow the use of all data available--federal, state, and local--to check applicant-supplied information;
- o Better training for local program managers;
- o Closer monitoring of local officials to ensure adherence to HUD procedures and regulations.

Budgetary and Program Impact. The PPSSCC estimates that its proposals would have a first-year dollar effect of $565.0 million and a three-year total effect of $1.87 billion. It bases these estimates on HUD studies indicating that between 12 percent and 17 percent of "section 8" tenants falsify information to obtain assistance. At the end of fiscal year 1982, about 1.5 million rental units were eligible for section 8 assistance. The PPSSCC estimates imply that, if ineligible tenants could be identified, from 183,000 to 260,000 units could be made available to newly qualified households. Since the number of eligible households far exceeds the number of available units, however, the disqualification of current tenants would not result in savings to the federal government. If the proposed procedures were to reveal some tenants whose verified incomes were higher than originally stated but still left them eligible for assistance, and if they were to remain in their units, HUD could expect to achieve higher rent collections. The CBO has not estimated the budgetary effect of this possibility.

The training and monitoring programs suggested by the commission represent significant changes from HUD's current procedures. It is probable that additional budgetary resources would be required.

Implementation. Some types of income data are currently available to managers of federally funded housing projects. At present, some 40 states maintain or are developing automated wage-data systems to help determine eligibility for unemployment benefits. Legislative action would be required, however, to permit disclosure of federal tax and Social Security data. Improved training and increased monitoring could be instituted administratively at the agency level.

Additional Comments. Over the past several years, GAO has published several reports that deal specifically with the HUD eligibility problems identified by the PPSSCC. The commission's findings and suggestions closely parallel those of GAO. Though it is clear that the commission recommendations have merit, GAO has suggested that obtaining the budgetary resources necessary for full implementation present problems.

References. PPSSCC, Report on the Department of Housing and Urban Development, pp. 108-119. GAO, Section 8 Subsidized Housing--Some Observations on Its High Rents, Costs, and Inequities (CED - 80-59, June 6, 1980). GAO, Legislative and Administrative Changes to Improve Verification of Welfare Recipients' Income and Assets Could Save Hundreds of Millions (HRD - 82-9, January 14, 1982). GAO, Further Actions Needed to Improve Management of HUD Programs (CED - 81-41, February 26, 1981).

IMPROVE RESEARCH AND DEVELOPMENT MANAGEMENT (R&D-1&2)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The PPSSCC recommendations are not sufficiently specific for a budgetary impact estimate.					
Outlays						

PPSSCC Proposal. The commission recommends that federal agencies implement a process of strategic planning for civilian research and development (R&D) that would establish specific program goals, projects, and time guidelines. In addition, the commission proposes changing budgetary treatment of R&D monies that would result in multiyear funding, reduced project detail, a shorter budget preparation and review process, and reduced technical staffs in federal agencies.

Budgetary Impact. The commission estimates that $3.2 billion--5 percent of total civilian R&D funding--could be saved over three years by implementing strategic planning. CBO has no basis for estimating savings from the commission's recommendations, but it notes that savings cannot be achieved directly from strategic planning. To achieve the savings estimated by the PPSSCC, R&D projects that are redundant, do not meet cost and performance standards, or do not contribute to a national objective would have to be eliminated. The commission bases its savings estimate on perceptions of potential savings from agency and the leaders of several public interest organizations, regarding the magnitude of such projects.

The commission estimates that changes in the budget process could produce three-year savings of $1.6 billion, 2.5 percent of its estimate of civilian R&D spending. Savings would result from reductions in technical staff and administrative costs stemming from the need for less budget detail and other changes in the budget process. CBO cannot estimate the savings that would result from this recommendation because of a lack of sufficient detail. The commission's estimates are based on interviews with Department of Energy managers about the effects of recent funding uncertainty on R&D program costs.

Program Impact. The commision maintains that its recommendations would eliminate inefficient use of R&D funds and provide stable support for

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R&D programs. In addition, R&D programs could be managed and administered more efficiently.

Implementation. Agencies could implement strategic planning administratively, though certain factors would have to be considered, such as development or improvement of data bases and management information systems; such systems would mitigate problems of coordination and improve the ability to plan. Further, the goals of basic research programs cannot always be expected to meet the criterion of being measurable in specific time periods. Such programs seek fundamental information without concern for specific processes or products. Finally, to achieve the savings estimated by the commission would require identifying and eliminating duplicative or unproductive R&D projects.

The commission's recommendations regarding budgetary changes would require the Congress to alter its budget process. R&D projects would have to be funded on a multiyear basis, and the focus of Congressional oversight and review of R&D programs would have to be broadened. Finally, technical staff within R&D agencies could be reduced administratively.

Additional Comments. In principle, GAO supports the commission's proposals for strategic planning and budget reform. GAO believes that strategic planning not only can benefit agencies, but also can be used effectively to coordinate and direct overall government R&D efforts. GAO also believes that the recommendations for budgetary reform should be reviewed in the context of restructuring the current decisionmaking and funding processes that constitute the financial management system of the government.

References. PPSSCC, Task Force Report on Research and Development, pp. 14-58. GAO, Multiyear Authorizations for Research and Development (PAD-81-61, June 3, 1981). GAO, The Office of Science and Technology Policy: Adaptation to a President's Operating Style May Conflict With Congressionally Mandated Assignments (PAD-80-79, September 3, 1980).

INCREASE USE OF PERFORMANCE SPECIFICATIONS FOR FEDERAL CONSTRUCTION PROJECTS (CONST-18)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The budgetary impact of the PPSSCC recommendation cannot be estimated with available information.					
Outlays						

PPSSCC Proposal. Most federal construction contracts are based on prescriptive specifications; that is, bids must be based on specific materials and methods. Another approach to construction bids is performance (or end result) specification. This method, infrequently used by the federal government, allows contractors to offer alternative materials and methods to achieve a specified standard of performance. The PPSSCC advocates increased use of performance specifications for federal construction projects.

Budgetary Impact. It seems reasonable to expect that, given the opportunity to advance alternative methods to construct a given project, bidders would--at least in some instances--offer less expensive, yet equally effective, proposals. Performance specifications cannot be applied to all construction projects (or to all portions of construction projects), and it would be difficult to estimate the possible savings even if the base of projects to which they are applicable were defined. In general, one would anticipate increased competition and lower bids, on average, if performance specifications were utilized where applicable. How much lower bids would be and what the applicable base is are uncertain. Thus, while some savings are possible, CBO is unable to estimate the budgetary impact of this proposal.

The PPSSCC estimates the three-year savings from implementing this proposal at $1.3 billion. It based this estimate on the finding that, for a sample of government construction contract bids, the difference between the two lowest bids averaged between 4 and 5 percent. A base of eligible programs was defined assuming that performance specifications are applicable to different, specified portions of various types of projects. The PPSSCC multiplied by 4 percent the estimated 1983 obligations for the base of programs it deemed eligible, and reduced this estimate by half to be conservative.

It is not clear that the PPSSCC's estimate of the applicable base of projects to which performance specifications can be applied is accurate. For many projects, it assumed that 100 percent of contracts would be eligible for performance specifications; this probably overstates the base of eligible projects. In addition, the assumption that the federal government would save 4 percent (or 2 percent) by switching from method specification to performance specification contracting is uncertain.

Program Impact. Some contractors not able to compete for projects under prescriptive specification bidding procedures might possibly be able to compete under performance specifications. Contractors would have the opportunity to make innovative proposals, but the government might have to expand its quality control and testing efforts to ensure that performance standards were met.

Implementation. No statutory or administrative prohibition now prevents the use of performance specifications. In fact, the General Services Administration and the Department of Defense have used performance specifications for some projects, and the Federal Highway Administration is currently developing performance-related specifications for highway construction and rehabilitation. To encourage their use, the PPSSCC recommends that an executive order be issued to the agencies. At any rate, it would probably be a year to two before new regulations were written and implemented.

Additional Comments. GAO points out that for many types of projects there is insufficient knowledge to write good performance specifications. And it may be difficult for the federal government and the construction industry to agree as to what building components have characteristics conducive to using performance specifications. An additional impediment to implementing this proposal quickly is the lack of standards by which to evaluate alternative materials and methods. The Federal Highway Administration finds that one drawback to the use of performance specifications is the inability to ascertain that specifications have been met until a project has been completed and in operation for some time.

References. PPSSCC, Task Force Report on Design and Procurement, pp. 115-23. GAO, Improved Energy Management in the Facility Design Process Should Reduce Operating Costs for DOD (PLRD - 83-46, April 8, 1983). GAO, GSA Could Do More To Improve Energy Conservation in New Federal Buildings (PLRD - 82-90, July 12, 1982). GAO, Better Information Management Could Alleviate Oversight Problems with GSA's Construction Program (PLRD - 82-87, July 9, 1982).

UPGRADE OBSOLETE COMPUTER HARDWARE AND SOFTWARE RESOURCES (ADP-4)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	The budgetary impact of the PPSSCC recommendations cannot be estimated with available information.					
Outlays						

PPSSCC Proposals. The PPSSCC recommends that all major automatic data processing (ADP) system operations be examined to identify obsolete systems. It also recommends consolidating and enhancing computer systems on an agencywide level. The commission also proposes that various planning and technical tools be adopted to improve computer hardware and software resources management. Further, the commission recommends increasing eight-fold the rate at which computer systems are acquired; this would result in the purchase or lease of an additional 1,429 computers in each of the next five years.

Budgetary Impact. In order to estimate the savings or increased costs of new computer systems, it is necessary to estimate its lifetime cost. This requires analysis of both the existing and proposed replacement systems. Only limited case examples are available, and data are not sufficient for reliable estimates on a governmentwide basis. The PPSSCC examined the costs and savings for hardware and software separately.

--Hardware. Using a GAO report entitled Continued Use of Costly, Outmoded Computers in Federal Agencies Can Be Avoided, the commission estimates that $3.4 billion in hardware-related costs could be saved over a three-year period by increasing the number of computers replaced each year from 205 to 1,634. The GAO study showed an average savings per agency--for the four agencies studied--of $350,000. GAO indicates that the PPSSCC should have used an average of $190,500 per agency as firm savings. The commission incorrectly assumed that the agency average represented a single computer for each agency. The GAO study actually included 23 computers, thus yielding a total firm operating cost savings of $33,100 annually for each unit upgraded, or less than 10 percent of the $350,000 claimed by PPSSCC. Furthermore, the purpose of the GAO study was to demonstrate that savings could be achieved for several specific computer brands. The findings of this small sampling should not be used as representative of the entire federal inventory.

The GAO savings estimates were based on information showing that the operating and leasing costs (including maintenance) of new leased equipment was less than the operating and maintenance costs of the old owned equipment. Thus, if the new equipment were leased, immediate budget expenditures would decrease. However, if the new equipment were purchased (which would lead to even greater savings over the new equipment's life cycle), these capital expenditures would cause short-term budget increases.

These cost and savings estimates relate only to the operations and maintenance of the computer hardware. Generally, such costs make up only 15-20 percent of a system's cost.

Federal agencies reported to the Office of Management and Budget (OMB) their plans to spend $19.1 billion on information technology acquisitions over the 1984-1988 period. The PPSSCC recommends that an additional 7,145 computers be bought or leased over a similar period. This could easily double the planned acquisition costs.

--Software. The commission claims a three-year savings of $614 million for the "common applications" recomendation, on the assumption that support costs of applications could be reduced by 20 percent. This area offers the best opportunity for large savings. As applications age, the software support costs increase greatly--for example, maintenance costs often make up 80 percent of the total cost of an aged application. This is reflected in the personnel costs that contribute over 40 percent of the federal computer costs. The increasing costs of aging equipment, coupled with the high efficiency of fourth-generation languages, data-base management systems, and other software advances, makes this an area of potentially high productivity gains.

Program Impact. The introduction of 8,170 new computers in a five-year period would have a major impact on the federal ADP work force, acquisition processes, and applications. Noncomputer staff would have to invest significant time in redefining computer requirements and verifying redesigned computer applications.

Implementation. The General Services Administration (GSA) has recently implemented a Technology Update Program, aimed at assisting agencies in replacing outmoded ADP equipment. GSA is currently developing program regulations that, when implemented, will provide an expeditious means for replacing obsolescent federal ADP equipment with modern equipment. This regulation will amend both the Federal Procurement Regulations and the Federal Property Management Regulations.

Addtional Comments. The CBO and GAO agree that the recommendations have merit but also agree that the savings estimates are not realistic. If the equipment is purchased rather than leased, large budget outlays would be required in the short term, and net budget savings would not be achieved in the early years. Purchasing has been more common than leasing, and is more economical for systems with a life of three years or more.

Much of the gains estimated in the common applications recommendation relate to productivity gains and not budget reductions. The recommendations would aid in the careful planning and assessment of existing systems and future requirements.

References. PPSSCC, Task Force Report on Automated Data Processing/Office Automation, pp. 37-55. James Martin Executive Seminar (Spring 1983). GSA, OMB, and NBS, A Five-Year Plan: Meeting the Automatic Data Processing and Telecommunications Needs of the Federal Government (April 1983). OMB, Improving Government Information Resources Management: A Status Report (March 1983). GSA, OMB, Major Information Technology Systems Acquisition Plans of Federal Executive Agencies, 1983-1988 (April 1983). GAO, Continued Use of Costly, Outmoded Computers in Federal Agencies Can Be Avoided (AFMD - 81-9, December 15, 1980).

CHAPTER V. FEDERAL CIVILIAN COMPENSATION AND WORK FORCE MANAGEMENT

The PPSSCC proposes several ways to reduce the federal costs--now some $75 billion a year--of compensating the government's 2.1 million civilian employees (excluding postal workers) and its 2 million civilian retirees and survivors. The proposals to reduce costs fall into two categories:

- o Changes in federal compensation policy covering levels of pay and employment benefits, and

- o Management initiatives that would result in a smaller federal civilian work force.

According to CBO estimates, the commission's farthest-reaching recommendations offer potential for budgetary savings totaling about $13.0 billion over the 1985-1987 period, reaching some $30.2 billion over the 1985-1989 period. If all of the commission's recommendations were adopted, however, the five-year savings would be somewhat smaller because of interactions among the separate proposals. (The CBO estimates presented in this chapter were not adjusted for this interaction.) In addition, the CBO total includes no estimate of the effect of the recommended change in retirement fund investment, as the proposal lacks sufficient detail.

The PPSSCC's estimates for its recommendations, by contrast, total $75.7 billion over the first three years of implementation. (As stated in Chapter I, the estimated period of implementation often commences far in the future and is not the same for all recommendations.) This sum is nearly six times the three-year amount estimated by CBO. Two differences in estimating approach account for most of this discrepancy. First, the PPSSCC's calculated savings from modifying federal retirement benefits derive from accrual cost measures reflecting events anticipated for the 1990s and beyond, whereas CBO's calculated savings reflect only the 1985-1989 budgetary impacts of changed benefit disbursements. Second, the PPSSCC's calculated savings from improved federal productivity assume far greater potential for gain than does CBO--in terms of numbers of workers potentially affected, the pace of change, and the number of separate actions that can yield cumulative productivity growth from one work force.

CHANGES IN COMPENSATION POLICY

The proposals to change federal compensation policy seek to align federal practices more closely with those thought to prevail in the private sector, yielding three-year outlay savings of $11.4 billion when estimated against CBO's baseline. The PPSSCC, in contrast, attributes savings of some $46 billion over three years to improving this alignment. Of CBO's total estimated 1985-1989 budgetary impacts (shown in Table V-1), by far

TABLE V-1. CBO ESTIMATES OF BUDGETARY EFFECTS OF PPSSCC PROPOSALS FOR FEDERAL CIVILIAN COMPENSATION

Commission Proposals	Annual Outlay Savings (billions of dollars)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
Reduce Benefits and Alter Financing of Retirement	3.3	4.0	4.7	5.8	6.4	24.3
Modify Health-Care and Disability Benefits	-0.1	-0.1	0.0	0.1	0.2	0.1
Alter Federal Pay Practices	-0.1	-0.2	-0.2	*	0.1	-0.4
Total	3.1	3.7	4.6	5.9	6.7	24.0

SOURCE: Congressional Budget Office.

NOTE: Negative figures indicate budgetary costs. The estimates represent the sum of each major proposal and, because of interaction among individual items, overstate the potential savings if many of the recommendations were adopted. Numbers may not add to totals because of rounding.

* Less than $50 million.

the greatest savings would come from restructuring the contributions to and benefits from the Civil Service Retirement (CSR) system. The PPSSCC also recommends changes in policy covering disability payments and health-care coverage, including numerous financing and administrative adjustments.

Concerning federal pay, the PPSSCC recommendations would alter both the methods of calculating annual wage and salary adjustments and the grade levels held by many workers under the General Schedule (GS) system.

Reduce Benefits and Alter Financing of Retirement

The PPSSCC has proposed various retirement-related benefit and financing changes to bring federal civilian retirement practices into closer alignment with what are thought to be typical private-sector practices. The PPSSCC benefit and financing proposals could, according to CBO, reduce federal deficits by $24.3 billion over the 1985-1989 period--$14.1 billion from reduced benefits and $10.2 billion from accounting practices that would increase contributions from the U.S. Postal Service and other off-budget entities.

With regard to financing, the commission recommends that employing agencies contribute the full costs of future CSR benefits, less employee contributions, and that some reserves in the CSR trust fund be invested in top-grade corporate bonds. In this area, GAO has long held that current practices cause accrued costs to be understated; thus, GAO supports the PPSSCC proposal to increase agency contributions toward federal civilian retirement.

With regard to changes in retirement benefits, the PPSSCC recommends annuity reductions for new retirees as well as for those already retired. For employees under age 45, eligibility for full retirement benefits would be advanced from age 55 to age 62, credit for years of federal service would be reduced, and participation in Social Security would become mandatory. The PPSSCC also proposes constraining future benefit increases linked to changes in the cost of living and reducing benefits--paid to current as well as future annuitants--for credits from military service and for Social Security benefits. These last two proposals alone would save $13.2 billion over five years, according to CBO.

The benefit changes sought by the PPSSCC stem from a conviction that federal retirement is too generous and that a wide gap--18 percent of payroll--distinguishes CSR accrued federal costs from private-sector retirement costs. Analysis by GAO and others indicates, however, that the commission overstates the gap in retirement practices. As a result, enactment of the PPSSCC retirement policy changes might actually push federal retirement practices behind those of the private sector.

GAO agrees with the need for structural changes to CSR, but it warns that adopting all the PPSSCC proposals together would not provide a program for federal employees comparable to that typically available in the private sector. The opposite conclusion reached by the commission does not reflect differences in work force demographics, consistent cost treatment of Social Security benefits, and growing use of capital accumulation plans in the private sector. Because of such shortcomings, GAO does not find the package of PPSSCC recommendations a sound basis for restructuring civil service retirement.

Modify Health-Care and Disability Benefits

The PPSSCC proposes delayed or denied disability benefits for federal workers and discontinuation of the current practice of granting retirement credits earned by federal employees for unused sick leave. For the employee health insurance program, the PPSSCC proposes several modifications, including elimination of the current 75 percent ceiling on the government's share of annual health insurance premium costs. The health care and disability recommendations seek, among other things, to improve the alignment of these systems with private-sector practice; but GAO finds flaws in the PPSSCC comparison. Federal employees on extended sick leave, for example, could be on long-term disability if they worked for private firms, but these benefits are not considered in the commission's analysis. Similarly, in the GAO's view, comparisons of health-care benefits do not adequately address the different contributions made by federal and private-sector employees toward their health-care coverage.

CBO analysis indicates that, together, the disability and health insurance modifications would reduce outlays by a net amount of only some $0.1 billion over a five-year period. Against the $1.0 billion in five-year savings estimated for disability, health-care changes would generate cost increases of $0.9 billion through 1989--such an increase attributable primarily to elimination of the ceiling on the government's share of premium costs. (Elimination of the ceiling raises the federal cost for employees already enrolled and would induce an estimated 200,000 more employees to join.)

Alter Federal Pay Practices

To make federal pay more comparable with that in the nonfederal sector, the PPSSCC would reform the basis for annual adjustments in federal wages and salaries.

For federal blue-collar workers covered by the Federal Wage System (FWS), the PPSSCC recommends dispensing with the current policy of capping annual pay adjustments below comparability, but it would broaden the basis for determining those adjustments and modify other FWS practices in ways that produce lower estimates of comparable compensation. The particular reforms--the need for which have been documented in numerous recent studies by the GAO--include incorporating wage data of state and local governments and not-for-profit organizations, discontinuing use of certain wage data outside the area being surveyed, and basing rates for overtime and night-shift work on local rather than national comparisons.

For federal white-collar workers (mainly those covered by the General Schedule) the PPSSCC recommends several changes to improve the methods for determining comparability, though the President could still follow the past practice of overriding comparability calculations and capping pay adjustments. A major compensation change, endorsed by GAO, would result from calculating comparability for federal clerical, technical, and support jobs on a local rather than nationwide basis. Other GAO-supported reforms recommended by the commission include expanding survey data to include more job categories and information from smaller establishments, state and local governments, and not-for-profit organizations. Finally, the PPSSCC would accelerate efforts to correct agency misgrading of positions relative to job standards, and would reduce the number of middle-management positions graded GS 11 through 15. The commission bases this conclusion, however, on a very limited analysis that compares the distribution of job levels for five highly-paid occupations in five private firms to the distribution of the occupations throughout the entire federal work force. Adequate information is not yet available to evaluate the PPSSCC position that the government, relative to the private sector, has an excess of top-level jobs in its work force.

Relative to the CBO baseline, the major wage and salary modifications would increase near-term budget outlays by $0.4 billion during the 1985-1989 period. The PPSSCC estimates, on the other hand, show three-year savings of $11.1 billion. Most of the divergence arises as a result of different assumptions used concerning the current level of federal pay relative to comparability comparisons with the private sector. The commission's estimates represent savings as though federal employees were already receiving "comparable" pay as currently measured. However, they are not and, therefore, CBO's estimate assumes a continuation of past practice that has held pay below comparability, with no catch up for the small increases granted in prior years. Thus, the PPSSCC proposals would increase near-term budgetary costs, even though the result would show savings relative to uncapped adjustments. In the case of blue-collar pay, CBO estimates that costs would rise, because the PPSSCC recommends compensating FWS employees for past wage restraint. In the case of white-collar pay, no payroll effects would occur, primarily because comparability adjustments are neither assumed in CBO's baseline nor specifically recommended by the commission.

MANAGEMENT INITIATIVES

The PPSSCC sets out five major proposals for improving federal personnel management. These concentrate largely, though not exclusively, on contracting out to the private sector for support services and improving work force productivity. With the exception of proposals affecting employees' vacations, all the recommendations could be implemented under present statutes. The recommendations seek to reduce the federal work force without causing lasting reductions in services; associated savings, according to the PPSSCC, could reach $29.6 billion over a five-year period. According to CBO estimates, the recommendations show five-year budgetary savings summing to about $6.2 billion (see Table V-2). Implementation of some items, however, could limit the savings achievable by others. Contracting out for most support services (maintenance, security, and similar functions), for example, would diminish potential savings available from improving the productivity of federal employees now performing those services.

TABLE V-2. CBO ESTIMATES OF BUDGETARY EFFECTS OF PPSSCC FEDERAL PERSONNEL MANAGEMENT INITIATIVES

Commission Proposal	Annual Outlay Savings (billions of dollars)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
Improve Productivity	*	*	0.6	1.2	1.9	3.7
Increase Contracting Out	0.0	*	0.1	0.3	0.3	0.7
Reduce Annual Leave	0.2	0.4	0.4	0.4	0.4	1.8
Total	0.2	0.4	1.1	1.9	2.7	6.2

SOURCE: Congressional Budget Office

NOTE: Negative figures indicate budgetary costs. The estimates represent the sum of each major proposal and, because of interaction among individual items, overstate the potential savings available if many of the recommendations were adopted. Numbers may not add to totals because of rounding.

* Less than $50 million.

The magnitude of attendant employment reductions is most difficult to determine. CBO estimates show personnel cuts (by attrition) eventually reaching as high 12 percent of the work force, or 257,000 jobs--compared to a cut of 736,000 jobs suggested in PPSSCC calculations. If all of these plans were adopted, the government would need to lay off substantial numbers of federal employees in the next few years. In such a case--because severance pay, retirement refunds, and other payments could initially exceed laid-off employees' salaries--outlays for large reductions in force could cancel out savings in the near term.

Improve Productivity

The PPSSCC recommendations to increase productivity (output per worker) would create new organizations designed to improve management, raise skill levels, and increase investment in equipment--all to permit today's level of work to be done by fewer federal workers. The commission's proposals--largely substantiated by numerous recent GAO studies--address the opportunity for productivity growth in most federal operations, including greater use of office automation equipment, as well as in two special areas of property maintenance and Social Security management.

Implementation of the proposals would generate by far the biggest management savings--some $3.7 billion in outlays through 1989, according to CBO. This estimate includes some $0.6 billion in savings for productivity measures relating specifically to processing of Social Security claims and to maintaining federal facilities. The PPSSCC's estimates for its productivity recommendations total $19.4 billion for only three years. Full implementation, according to CBO, could mean the loss of nearly 80,000 federal jobs--about one-fourth as many as the PPSSCC estimates. At whatever level reductions occurred, resulting savings would be difficult to capture for budgetary purposes, as they would spread over the many accounts associated with the array of federal activities.

Increase Contracting Out

Other staff management proposals would lower the number of federal jobs by increasing reliance on contract services purchased from private firms. Expanded use of private contractors for the support services the government requires could eventually save $1.1 billion a year--about one-fifth the PPSSCC's annual estimate of $5.6 billion. To accomplish these savings, the commission calls for, among other things, Executive Branch encouragement and legislation mandating contracting out. Noting that Executive Branch policy has called for agency use of contracting out since 1955, the GAO supports enactment of national policy in this area. Greater use of private contractors would mean elimination of as many as 165,000 federal jobs, mostly held by blue-collar workers. (This CBO estimate assumes continuation of major statutory exemptions for certain jobs at the Defense Department and Veterans Administration.)

Reduce Annual Leave

The commission proposes that the amount of paid annual leave federal employees may earn and accumulate be reduced to conform more closely with what it regards as typical private-sector practice. The increased personnel time spent on the job would yield savings of some $1.8 billion over five years, according to CBO. The PPSSCC's estimates for this proposal total $3.8 billion over three years. CBO's estimate implies a cut of some 13,000 workyears with no reduction in service provided by the government.

The commission's recommendations were based on studies that failed to consider several types of paid time off allowed in the private sector, such as personal leave not charged to earned vacation time. The GAO maintains, in fact, that when all types of paid leave for purposes other than illness are considered, federal employees now likely spend more time on the job than do their private-sector counterparts.

REDUCE CIVIL SERVICE RETIREMENT BENEFITS
(RETIRE-1, 2, 4, 5, 6, 9)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	10	210	410	590	730	1,950
Outlays	1,450	2,140	2,840	3,570	4,120	14,120

PPSSCC Proposals. The PPSSCC proposes several recommendations aimed at reducing the Civil Service Retirement (CSR) system's benefits and long-term costs through a purported closer alignment with private-sector retirement practices. For all current federal workers, the recommendations would:

- Increase the salary base used to calculate benefits from three to five years,

- Change to an actuarial reduction the benefit-reduction penalty for employees who retire early because of employment cutbacks and the penalty for providing an annuity for surviving spouses, and

- Increase the minimum years of service required for deferred pension benefits from five to ten years.

For current workers under age 45, the recommendations would:

- Increase the retirement age to 62 years, with an actuarial reduction for earlier retirement,

- Reduce the accrual rate formula, which, when applied to average salary, determines the pension amount, and

- Require participation in Social Security.

As an alternative, the PPSSCC recommends that employees under age 45 participate in a defined contribution plan rather than in a modification of the current CSR system. The budgetary consequences of this plan are not addressed, however, because the PPSSCC recommendation does not specify the government's contribution rate as an employer.

The PPSSCC would eliminate the benefits to annuitants' survivors who are students between the ages of 18 and 22 years. For current and future retirees alike, it would:

- o Reduce post-retirement cost-of-living adjustments (COLAs),
- o Offset CSR benefits by a portion of an annuitant's Social Security benefit, and
- o Eliminate crediting years of military service toward civilian retirement benefits.

The PPSSCC also recommends modifying CSR disability provisions and changing the accounting and investment practices of the retirement fund. These recommendations are addressed separately in this report.

Budgetary Impact. Although the proposed changes would lower the long-term costs of CSR, budgetary savings through 1989 would result mostly from changes in benefits to current retirees. More than nine-tenths, or $13.2 billion, of CBO's estimate of the cumulative five-year savings would result from modifications in future COLAs and reductions in current benefit levels attributed to the elimination of military service credits and the application of Social Security offsets. None of the remaining individual changes would yield cumulative outlay savings of more than $0.6 billion through 1989. The CBO estimates assume that implementation of the PPSSCC proposal would begin as of October 1, 1984. In addition, the CBO estimate does not assume any change in the behavior of federal employees projected to retire during the next five years. To the extent that employees accelerated their plans to retire, near-term costs for new CSR beneficiaries would rise.

The PPSSCC estimates that the overall savings from reducing CSR benefits would be approximately $30 billion over three years. (This estimate also incorporates savings associated with modifying CSR disability and investment practices.) The savings represent the present value of cost reductions for the years 2001 through 2003, calculated on an actuarial basis that assumes the government's cost for CSR could be eventually reduced by the equivalent of 18 percent of salary. This cut, the commission alleges, eliminates the difference in retirement costs between the federal government and private-sector employers. Further, the estimate assumes that the cost of retirement for new federal employees hired on or after January 1, 1984 (who will be covered by Social Security), would be the same as the current program, which may or may not be the case.

On the basis of information developed by the Office of Personnel Management, CBO has determined that, if retirement practices typical of private employers were adopted for federal employees, the employer cost would be 22.8 percent of pay. Recent actuarial estimates showed the cost of the CSR system for current employees to be 25.8 percent of pay if the economic assumptions used in valuing the Social Security program were used. Thus, the CRS and CBO data would indicate that far less disparity may exist between the CSR system and private-sector programs than the PPSSCC assumed in reaching its conclusions. Moreover, the CSR system covers law-enforcement personnel, firefighters, and air traffic controllers, who have no private-sector counterparts, and who, in general, receive higher benefits because of earlier retirement. Further, the comparisons used by the PPSSCC incorporate the cost of disability benefits on the federal side but not on the private side.

Program Impact. The PPSSCC proposal would drastically reduce CSR benefits provided to federal civilian employees and retirees. All of the 1.8 million individuals currently receiving CSR benefits would be affected by the proposal to change annual COLAs. Reduced COLAs would mean smaller future adjustments to reflect inflation. In particular, COLAs received by annuitants under age 62 would be limited to one-third of the change in the Consumer Price Index (CPI), and those received by annuitants aged 62 and over would be limited to about 70 percent of the CPI change. Further, many of these same retirees would have their current benefits cut by as much as 30 percent because of the proposed Social Security offset and elimination of military service credits. Cutting the level of benefits currently received--an unprecedented action--as opposed to reducing the size of future COLAs, would undoubtedly cause hardships for many persons whose retirement budgets are based on predicted levels of income. The effect of the other changes would reduce CSR benefits for all current employees. Initial benefits for employees retiring during the next five years would be reduced on average by 15 percent. Offsets owing to Social Security income at age 65 would further reduce their CSR benefits.

Implementation. Through numerous actions, the Congress has already tightened the requirements for early retirement, required civilian employees to contribute toward their military service credits, limited the inflation protection provided CSR beneficiaries, and cut Social Security benefits for federal employees with short private-sector careers. In addition, recent legislation requires new federal employees to participate in Social Security, though a supplemental pension plan has yet to be designed.

The Senate Committee on Governmental Affairs and the House Committee on Post Office and Civil Service have projects under way to design a retirement system for post-1983 federal employees to supplement those workers' inclusion in the Social Security system. The keystone of both Committees' analysis is a comprehensive review of nonfederal (private, state, and local) retirement practices. The probability of viewing the retirement package as a whole and making consistent and complementary changes for both current and new employees would be higher if the Congress deferred action until the legislative committees acted on the changes for newly hired workers.

Additional Comments. Although GAO agrees that some of the individual items that make up the PPSSCC proposal have merit, it does not believe that the package of recommendations should be adopted. GAO does not agree with the PPSSCC's assertion that there is an 18-percentage-point gap between federal and private-sector retirement practices. Indeed, it questions whether there would be any gap at all if the PPSSCC analysis had considered laws recently enacted and included the benefits often available from capital accumulation plans in the private sector. Because the PPSSCC proposals to change CSR do not include all three types of retirement income found in the private sector (pension plan, Social Security, and capital accumulation plan), GAO does not endorse the PPSSCC recommendations as being based on representative private-sector practices or as sound personnel policy for federal employees.

In addition, the courts have commented that, once an individual retires from CSR and becomes entitled to an annuity, he or she has a protected property right in the annuity, at least to the level provided by law in effect at the time. Since some of the PPSSCC proposals could be viewed as depriving an individual of a vested property right, they could be questioned in the courts.

The President's 1985 budget also proposes reductions in CSR benefits similar to, but not so far-reaching as, those proposed by the PPSSCC. Specifically, it would delay COLAs and provide only 55 percent of the change in the CPI for annuities over $10,000, eliminate benefits to annuitants' student survivors, eliminate minimum benefits, and base benefits on average salary over five rather than three years. Unlike the commission's recommendations, the 1985 budget also proposes to increase employee contributions to 8 percent from 7 percent of salary in 1985 and to 9 percent of salary in 1986 and beyond.

References. PPSSCC, Federal Retirement Systems, pp. 45-61, 72-109, and 133-41. CBO, Reducing the Deficit (February 1983), pp. 194-99. CBO, Reducing the Federal Deficit (February 1982), pp. 177-81. CBO, An Analysis of the Potential Budgetary Impacts of Certain Proposals Recommended by the President's Private Sector Survey on Cost Control: Task Force Report on Federal Personnel Management (May 1983). GAO, Need for Overall Policy and Coordinated Management of Federal Retirement Systems (FPCD - 78-49, December 1978). GAO, Cost-of-Living Adjustments for New Federal Retirees: More Rational and Less Costly Processes Are Needed (FPCD - 78-2, November 1977). GAO, Cost-of-Living Adjustment Processes for Federal Annuitants Need Change (FPCD - 76-80, July 1976).

CHANGE CIVIL SERVICE RETIREMENT ACCOUNTING AND INVESTMENT PRACTICES (RETIRE-7, 8)

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
Budget Authority	-5,650	-6,000	-6,400	-6,800	-7,200	-32,050
Outlays	1,850	1,900	1,900	2,250	2,250	10,150

NOTE: Negative figures indicate costs.

PPSSCC Proposals. The PPSSCC would change the accounting practices and investment policies of the Civil Service Retirement (CSR) system. Because contributions from federal agencies and their employees do not cover the full cost of future CSR benefits, the U.S. Treasury makes certain payments toward CSR liabilities. The PPSSCC would streamline the government's accounting practices by increasing federal agency contributions to recover the estimated full cost of future CSR benefits less employee contributions; this would curtail the Treasury's payments.

The PPSSCC also recommends investing a portion of CSR assets in top-grade corporate bonds. About $100 billion of CSR assets are invested in U.S. Treasury securities. These investments essentially represent internal accounting transactions that do not affect governmentwide budget outlays or revenues. Over the next five years, the PPSSCC would shift about $20 billion that otherwise would be invested in U.S. securities, and eventually would place 25 percent of CSR funds in AAA bonds.

Budgetary Impact. Because the PPSSCC report lacks sufficient detail to calculate meaningful budgetary estimates of the proposed changes in investment practices, CBO has limited its estimate of savings to the impact of the accounting recommendations. Higher agency contributions for retirement have no direct budgetary impact, because they are intragovernmental transactions. But CBO estimates that the increase in CSR contributions from the U.S. Postal Service (USPS) and certain other off-budget agencies, which are treated in the budget as offsetting receipts, would reduce federal outlays and budget deficits by $10.2 billion through 1989. The PPSSCC, unlike CBO, estimates no quantifiable savings from increasing federal agency contributions to the CSR system, probably because the Postal Service impacts were not considered. Although it did not address the Postal Service effects, the PPSSCC maintains that better accounting for retirement would indirectly reduce expenditures, presumably by focusing attention on the full cost of all federal services. (The outlay savings from accounting changes would disappear if--contrary to the assumptions used--appropriations to off-budget agencies were increased to cover the cost of higher agency contributions to CSR. The estimates also exclude the potential effects on new federal workers' being covered by the Social Security Amendments of 1983, because their retirement benefits and associated costs are not known. Finally, agency contributions are assumed to increase from 7 percent to 19 percent of pay for current employees--which is consistent with the discussion of CSR benefit reductions addressed elsewhere in this report.)

The PPSSCC estimates include three-year savings of $0.6 billion from its proposed changes in CSR investment practices. These savings represent higher investment returns of $1.9 billion in the years 2001 through 2003, adjusted to a 1983 present value using a 6 percent annual discount rate. Although CBO did not estimate this PPSSCC proposal, the plan might increase 1989 budget receipts by about $130 million assuming--unrealistically--that financial markets were not affected. But the nature and extent of such impacts are most uncertain, because they would depend on the number as well as the size of bond purchases made each year, the timing of those purchases, and whether the government purchased bonds in the market or by bid from potential bond issuers.

Program Impact. Increasing agency contribution rates to the CSR system for today's work force--from 7 percent of pay to 19 percent--presumably would foster better cost accounting and, therefore, better programmatic and budgetary decisionmaking; it would not affect benefits. For most agencies, the higher contribution would represent budgetary accounting changes that, by themselves, would not directly alter federal services or total outlays. For the USPS, however, the higher contribution rate would eliminate an indirect federal subsidy to postage rate payers. Because postal employees participate in the CSR system without the USPS' paying the full federal cost, the PPSSCC would shift USPS retirement costs from the general taxpayer to mail users through higher postage rates. As a result, between 1984 and 1990, the cost of mailing a letter could increase about 10 percent over whatever rate otherwise occurred.

With regard to CSR investment in AAA bonds, the PPSSCC's recommendations would mean a controversial and precedent-setting change in public policy. In effect, the government would be borrowing money from the public to invest in AAA bonds and trying to optimize investment returns by taking acceptable risks--much as a private insurance company or bank does. Such a major policy change for CSR could be extended to other government trust accounts that finance programs such as Social Security and federal aid to highways. At present, federal trust funds mainly invest in special U.S. securities that are not marketable and thus do not place a demand on money markets.

If the CSR or other federal trust fund shifted a fraction of its investments to top-rated corporate bonds, the interest earnings on the amount shifted might rise by about half a percentage point relative to earnings on U.S. bonds "of equivalent maturities." (The estimate reflects differences derived from CBO budget assumptions for the 1985-1989 period.) This suggests that an additional $5 million might be generated if $1 billion were invested in AAA bonds.

A larger volume of such investments could, however, greatly alter the rate differential between corporate and U.S. bonds; it would also mean incurring certain risks--including the possibility of default. Purchasing corporate bonds instead of special Treasury securities, which can always be redeemed at face value plus accrued interest, creates an additional risk because corporate bonds are subject to price fluctuations. The government would also incur the administrative costs of managing more heterogeneous bond holdings. The PPSSCC suggests purchasing $20 billion of AAA bonds by 1989, or about $4 billion per year. But near the end of calendar year 1983 (in part because several bond ratings had been downgraded), about $33.4 billion was outstanding in AAA bonds. New issues alone amount to only about $1.2 billion per year. Thus, to meet the PPSSCC target, the CSR fund would have to absorb about one-half of total holdings by 1989.

If the Congress wanted a portion of the CSR fund to be credited with interest based on AAA bond rates--without forcing the sale of U.S. securities and the purchase of corporate bonds--it could so stipulate by amending the law.

Implementation. The accounting changes and their effect on agency contributions would be consistent with those recently enacted for military retirement. Their application to CSR, as well as the proposed investment changes, would require legislation.

References. PPSSCC, Federal Retirement Systems, pp. 110-32. GAO, Federal Retirement Systems: Unrecognized Costs, Inadequate Funding, Inconsistent Benefits (FPCD-77-48, August 1977). CBO, Civil Service Retirement: Financing and Costs (May 1981). A forthcoming CBO paper addresses the indirect retirement subsidies received by the U.S. Postal Service.

RESTRICT SHORT-TERM AND LONG-TERM DISABILITY BENEFITS FOR FEDERAL EMPLOYEES (PER-4, RETIRE-3, RETIRE-4-3)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	0	0	-5	-15	-35	-55
Outlays	40	115	200	295	385	1,035

NOTE: Negative figures indicate a net increase of income, budget authority, to the retirement trust fund.

PPSSCC Proposals. The PPSSCC recommends modifying federal policy concerning benefits available to federal workers with short-term and long-term disabilities. It would allow employees who have already accumulated more than 130 days of sick leave--about six months--to keep it until it is used, but it would not allow future accumulations to exceed more than that amount. In addition, federal employees could no longer increase their retirement benefits by counting unused sick leave as additional federal service.

The PPSSCC would separate long-term disability payments from the federal retirement system, and would restrict eligibility to only those employees who are unable to work at any job. Current law provides disability retirement benefits if an individual is unable to perform any of the critical functions of his or her current job or an equivalent one at the same grade and same level. In addition, the PPSSCC proposal would allow employees to receive disability protection after they have been employed for 18 months instead of after five years, but they would have to have been disabled for five months before receiving benefits. These changes would base the eligibility requirements--but not the benefits--of the long-term disability system for federal civilian employees on those of the Social Security system.

Budgetary Impact. For long- and short-term disability recommendations combined, the PPSSCC places savings at more than $1.5 billion a year. The estimates represent cost differences, as a percentage of covered payroll, between today's federal policies and those recommended by the PPSSCC. The commission's calculations suggest that the government would save one day's pay by reducing by eight hours the average annual amount of sick leave used. In reality, such a change would only affect payroll costs to the extent that "sick workers" spent more time on the job and thus reduced the government's total personnel requirement. Some of the recouped job time would probably reflect the return to work of borderline but less productive workers. The effect of eliminating sick leave accumulations from retirement calculations is measured by the PPSSCC over the long term using an actuarial cost basis, rather than on the basis of federal outlays through 1989.

From a budgetary perspective, CBO estimates that the PPSSCC's recommendations would decrease the cost of retirement. Because unused sick leave would no longer increase retirement benefits, the initial level of new federal pensions would decline by about 2 percent. This change would reduce outlays by about $290 million for the 1985-1989 period. During the same period, the other short-term disability changes would have a negligible budgetary effect.

Restricting eligibility requirements for long-term disability benefits would reduce the number of employees who could begin receiving benefits and, by delaying payments for five months, would reduce the total amount received. Although difficult to determine, the estimate assumes that the number of employees starting disability benefits under current practice would be reduced by approximately one-half: one-quarter would shift to regular retirement, but benefits based on age and length of service might be lower; and one-quarter would fail to qualify for either disability or regular retirement because they could not satisfy age and length-of-service service criteria. For the remaining one-half who would still be eligible, commencement of disability benefits would be delayed five months.

Program Impact. In 1985, some 16,000 federal employees will begin to receive federal disability checks averaging approximately $1,000 per month. For some of these people, the PPSSCC's proposal would delay receiving first checks for five months. For others, no disability benefits would be available, compelling them either to work at any job regardless of level, shift to regular retirement, or leave the federal service without continued federal income. This proposal would not affect benefits being received by persons currently disabled. By restricting eligibility without increasing benefits, the PPSSCC proposal to change long-term disability falls short of comparability with private-sector practice, which typically provides a higher level of benefits for eligible workers. If, however, federal disability benefits were increased accordingly, the total federal cost of disability would rise by about 50 percent.

With regard to sick leave, most federal workers already use their accumulated days before initiating disability benefits. A disabled worker with less than ten years of service, however, could not have accumulated five months of sick leave to use. This means that if a person were unable--for whatever reason--to continue drawing salary (by taking annual leave, for example), he or she would suffer financially. Based on information from the Office of Personnel Management (OPM), this recommendation could cause at least 2,200 newly disabled federal workers each year to be without a salary or compensatory benefits for four or more months. To protect against the possibility of such an event, workers could purchase short-term disability insurance.

The amount of sick leave used by federal workers would not necessarily decline if the PPSSCC's recommendations were implemented; more likely, the amount of sick leave used by federal workers would increase. About 300,000 employees already have accumulated more than 130 days of sick leave. Under the PPSSCC proposal, these workers could not accumulate any more sick leave and could not credit any of their current reserve toward retirement. Consequently, most of these individuals would use the additional 13 days they accrue each year and, before retiring, might deplete their accumulated reserves by taking more time off. According to the PPSSCC, the government should encourage other workers to build up their accumulated sick leave to the 130-day level. Obviously, this would take a long time for many employees, and at least ten years for those newly hired.

Implementation. The PPSSCC's recommendations would require legislation to modify provisions of the federal retirement system and government policies concerning the accumulation of sick leave. Long-term disability criteria have been tightened recently both by the Congress, mainly through the budget reconciliation process, and administratively by OPM.

Additional Comments. Some observers believe the PPSSCC proposal might be challenged in the courts as depriving an individual of a protected property right. Many workers, for example, have already accumulated substantial sick leave credits that, if not used for illness during active service, would be forfeited. In this case, the employee affected might claim loss of benefits earned under current law.

References. PPSSCC, Task Force Report on Personnel Management, pp. 62-71. PPSSCC, Management Office Selected Issues, vol VI, Federal Retirement Systems, pp. 72-84. GAO, DoD Civilian Employees Use of Sick Leave Before Retirement Is Still High (FPCD - 79-66, August 1979). GAO, Disability Provisions of Federal and District of Columbia Employee Retirement Systems Need Reform (FPCD - 78-48, July 1978). GAO, Civil Service Disability Retirement Program (FPCD - 81-18, December 1980). GAO, Most Civil Service Disability Retirement Claims Are Decided Fairly, But Improvements Can Be Made (FPCD - 83-1, April 1983).

MODIFY THE FEDERAL EMPLOYEES HEALTH BENEFIT PROGRAM (PER-2)

Savings from CBO Baseline	Annual Savings (Millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	-110	-165	-165	-155	-140	-735
Outlays	-130	-195	-200	-195	-185	-905

NOTF Negative figures indicate costs.

PPSSCC Proposals. The PPSSCC's report on Personnel Management claims that the total cost of the Federal Employees Health Benefit Program (FEHBP) would decline if federal policies and practices were better aligned with the private sector's. The FEHBP offers health insurance benefits on a voluntary basis to federal civilian employees (including postal workers), annuitants, and their dependents. The government funds about 53 percent of the total premium cost for annuitants and about 60 percent for nonpostal active-service employees; its maximum contribution for any of the more than 150 FEHBP plans offered is 75 percent of the annual premium. The PPSSCC recommends 16 changes to improve the program and to contain costs, including:

- Eliminate the 75 percent cap on government contributions,
- Amend eligibility criteria,
- Change the allocation of costs among participants,
- Encourage cost competition by obtaining bids for plans available on a governmentwide basis,
- Authorize adjustments in premiums on the basis of geographic differences in health-care costs, and
- Limit the number of health maintenance organizations within one service area.

The PPSSCC also proposes a biennial rather than an annual enrollment cycle, use of demonstration projects to evaluate new alternatives, and circulation of better information to participants. Finally, the commission recommends changing budgetary accounting for retirees' health care and establishing standards for claims processing, for the amount of funds held in reserve accounts, and for minimum benefit levels. Many of the individual recommendations are identified in a July 1982 report prepared by an independent actuarial firm for the House Committee on Post Office and Civil Service.

Budgetary Impact. As opposed to the PPSSCC's three-year savings of $1.36 billion, the CBO estimates that budget outlays through 1989 would increase by $0.9 billion. This increase arises because savings of $0.4 billion from reduced government costs would be more than offset by increases in administrative expenses ($0.1 billion) and the effects of lifting the 75 percent ceiling on agency contributions ($1.2 billion). The savings mainly derive from beginning to shift what is now the government's cost for newly retired postal workers' health insurance to the U.S. Postal Service--an off-budget agency. The combined effects of the PPSSCC recommendations are based on a March 1983 snapshot of FEHBP participation. Because of data limitations, current policy projections through 1989 assume no changes in the March 1983 enrollment profile. Given this static baseline, it is difficult to see how the PPSSCC would constrain the projected rise in FEHBP costs rather than transfer costs among premium payors.

The PPSSCC's report indicates that applying health insurance practices used by private-sector employers to the FEHBP would reduce the program's cost from 6.8 percent of covered payroll (employees' 2.5 percent and employers' 4.3 percent) to 5.8 percent (employees' 2.1 percent and employers' 3.7 percent). This reduction is estimated to save the government $1.36 billion over a three-year period. But the PPSSCC also observes that health-care practices in the private sector differ from FEHBP practices in three ways: private employers' contributions average 5.3 percent of covered payroll, versus the government's 4.3 percent; private employers devote a larger portion of their contributions to administrative costs; and private-sector plans generally provide more comprehensive health-care insurance that, on average, covers 12 percent more claims. How do FEHBP benefits and administrative expenses that are lower than the private sector's result in program costs that are one point higher? Perhaps because the income, occupation, and demographic characteristics of FEHBP participants differ from those typical of the private sector; that difference is not recognized by the PPSSCC's cost comparison.

Program Impact. The PPSSCC recommendations would have several direct effects on the FEHBP:

- o The level of health-care benefits available to federal retirees eligible for Medicare would decline, and the program costs subsidized by this group would shift to other FEHBP participants,

- o Enrollees' choice would be limited because of the proposed biennial enrollment cycle and because of the reduced number of FEHBP options; some 10,000 federal workers planning to retire during the next five years with less than ten years of federal service would either delay their retirement plans or lose their FEHBP eligibility,

- o The government would no longer support any health-care costs for newly retired postal workers and, as a result, the operating costs and postage rates of the U.S. Postal Service would rise slightly, and

- o Because the government would begin to contribute up to 100 percent of certain FEHBP premiums, about 200,000 more federal employees would enroll in the program.

This last recommendation, by encouraging greater participation in lower-cost plans, could moderate the projected rise in FEHBP premiums over several years. But shifts to lower-cost plans have already occurred and will likely continue through 1989, because the annual rise in FEHBP premiums is expected to remain above general price increases.

Implementation. The Office of Personnel Management (OPM) could implement a number of the PPSSCC's modifications through administrative changes. In fact, OPM has already taken steps to prevent the exclusion of federal retirees by certain plans. Eight of the commission's recommendations would require legislative action, of which the following would have immediate budgetary effects: charging the government's share of FEHBP premiums for new retirees to the agency from which they retire, discontinuing FEHBP coverage for new retirees--and their survivors--unless they have at least ten years of federal service; and eliminating the 75 percent ceiling on government contributions for lower-cost FEHBP plans.

Additional Comments. In GAO's view, each of the 16 recommendations has advantages and disadvantages. Although GAO has not done sufficient study to determine long-term impacts, it does not find convincing evidence that the recommendations are cost effective, especially in view of the difference between government and private-sector contribution rates.

References. PPSSCC, Task Force Report on Personnel Management, pp. 56-64. House Committee on Post Office and Civil Service, Review of the Federal Employees Health Benefits Program (July 1982). GAO, Financial and Other Problems Facing the Federal Employees Health Insurance Program (HRD - 83-21, February 1983). GAO, Federal Employees Need Better Information for Selecting a Health Plan (MWD - 76-83, January 1976). GAO, More Civil Service Commission Supervision Needed to Control Health Insurance Costs for Federal Employees (HRD - 76-174, January 1977). GAO, Stronger Management Needed to Improve Employee Organization Health Plans' Payment Practices (HRD - 79-87, September 1979). GAO, Eligibility of Civil Service Annuitants, Survivors, and Employees for Medicare (HRD - 83-26, March 1983). GAO, OPM Should Promote Medical Necessity Programs for Federal Employees' Health Insurance (HRD - 80-79, July 1980).

REFORM PROCESS FOR DETERMINING PAY COMPARABILITY ADJUSTMENTS FOR FEDERAL BLUE-COLLAR EMPLOYEES (PER-7)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	-220	-375	-400	-420	-490	-1,905
Outlays	-190	-340	-370	-390	-420	-1,710

NOTE: Negative figures indicate costs.

PPSSCC Proposal. Under the principle of comparability, the federal government would adjust its blue-collar employees' wages on the basis of the prevailing rates paid in the private sector for comparable work. The PPSSCC endorses the principle of true wage comparability and recommends the following changes to make pay policies for federal blue-collar employees (those covered by the Federal Wage System--FWS) conform more closely to those in the private sector:

- Use the comparability process, but reduce from five to three the number of steps federal workers advance within each grade,

- Expand wage surveys to include comparable jobs in state and local governments and not-for-profit organizations,

- Repeal the Monroney Amendment, which requires setting federal pay rates in certain wage areas according to data received from outside those areas, and

- Determine overtime and night-shift pay more in accordance with the prevailing local practice.

Budgetary Impact. The PPSSCC estimates that savings of about $1.8 billion over three years could result from its recommendations. It bases this estimate on the assumption that its proposals would reduce by 6 to 8 percentage points the FWS adjustment necessary to achieve wage comparability. Several studies show that before 1978, FWS employees were overpaid an average of 8 percent relative to their nonfederal counterparts. Limits on annual wage adjustments since 1978, however, have resulted in pay rates for many FWS employees that lag behind the private sector's. On the basis of information from the Department of Defense (DoD), which employs more than three-fourths of all federal employees affected, a 1984 catch-up raise of about 10 percent would be required to achieve comparability as it is now measured. Implementation of the PPSSCC recommendations would merely reduce the size of the catch-up from 10 percent to about 3 percent.

The commission's recommendations, which would produce a more accurate measure of comparability for FWS employees, would increase near-term outlays relative to the CBO baseline. The CBO baseline assumes that annual federal wage increases will keep pace with the private sector's, and that no catch-up adjustment will be awarded to offset the effects of recent limits on annual federal wage increases. The net budgetary effects, totaling $1.7 billion in additional outlays through 1989, would result primarily from a one-time catch-up adjustment in 1985 of about 2 percent to 4 percent. Outlays would also rise to finance the expanded wage surveys proposed.

Program Impact. The PPSSCC recommendations would affect many of the 500,000 blue-collar workers employed mainly by the DoD. The effects on future pay adjustments for individual workers would vary widely, because of differences in geography, occupation, and seniority. These differences, and uncertainty about implementation details, preclude generalizations about the effects on future pay adjustments. Many workers would receive pay raises larger than those under a continuation of pay caps (as assumed by CBO); but others could receive much smaller increases, because their current wages may already exceed the proposed new nonfederal-based comparisons.

Implementation. All the elements of this plan, which have been considered previously by the Congress and by the current and past Administrations, would require legislative action to implement.

Additional Comments. Though GAO agrees with CBO that immediate budgetary savings would not result, it recommends implementing this plan.

References. PPSSCC, Task Force Report on Personnel Management, pp. 108-111. GAO, Improving the Pay Determination Process for Federal Blue Collar Employees (FPCD-75-122, June 1975). GAO, How the Fair Labor Standards Act Affects Federal Agencies and Employees (FPCD-76-95, April 1977). GAO, Federal Compensation Comparability: Need for Congressional Action (FPCD-78-60, July 1978). GAO, Federal Pay Setting Surveys Could Be Performed More Efficiently (FPCD-81-50, June 1981). GAO, Proposal to Lower the Federal Compensation Comparability Standard Has Not Been Substantiated (FPCD-82-4, January 1982). CBO, Alternative Approaches to Adjusting Compensation for Federal Blue-Collar Employees (November 1980).

REFORM PROCESS FOR DETERMINING PAY COMPARABILITY ADJUSTMENTS FOR FEDERAL WHITE-COLLAR EMPLOYEES (PER-6)

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
Budget Authority	-8	-9	-11	-12	-14	-54
Outlays	-8	-9	-11	-12	-13	-53

NOTE: Negative figures indicate costs.

PPSSCC Proposals. In recent years, both the definition of what constitutes "comparability" of federal government and private-sector pay and the method for arriving at a comparability adjustment for the nation's 1.6 million federal white-collar employees have been challenged repeatedly. The PPSSCC recommends a five-part modification to improve the calculation process for determining comparability:

- Establish pay rates for federal clerical, technical, and support jobs according to prevailing rates in the nonfederal sector, but on a local rather than a nationwide basis,
- Expand the number of grade levels for federal employees paid under the General Schedule,
- Consider adopting a biennial rather than an annual survey of private-sector salaries to establish a comparative basis,
- Broaden the survey to include data on the salaries paid by not-for-profit organizations, state and local governments, and establishments that employ as few as 25 workers, and
- Compare salary data for an increased number of job categories.

As currently measured, pay comparability would have required an average pay raise for federal white-collar employees in October 1983 of 21.5 percent. A capped increase of 3.5 percent--delayed from October to January--was granted.

Budgetary Impact. The PPSSCC believes its recommendations would lower the comparability adjustment necessary to bring federal white-collar

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salaries into alignment with nonfederal pay by 4 to 5 percentage points. The PPSSCC estimates that, over three years, this would save about $4.1 billion--averaging some $1.4 billion a year.

CBO estimates that the PPSSCC's recommendations would increase administrative costs, on the basis of data from the Bureau of Labor Statistics (BLS), but it would not affect the size of annual pay adjustments projected through 1989 for federal white-collar employees. The annual increase in outlays for administrative expenses would accumulate to some $53 million through 1989. As of March 1984, a pay comparability adjustment, as currently calculated, would exceed 21 percent--reflecting a 3.3 percent annual change in private-sector pay and a 17.4 percent catch-up adjustment to compensate for pay limits during the last six years. Because CBO's five-year projections assume no catch-up adjustment will be granted, the PPSSCC's proposals would not reduce payroll outlays relative to the CBO baseline.

Program Impact. Although the PPSSCC's recommendations could improve the means by which pay comparability is determined, they would not change the current practice of annually adopting an alternate plan that caps pay rates at a level lower than the comparability rate. As noted above, enactment of alternate pay plans in each of the last six years has depressed pay rate increases for federal white-collar workers. The PPSSCC recommendations would, however, require an annual increase of 275 workyears of effort over a four- to five-year phase-in period. This increase represents the net effect of expanding the scope of the BLS salary survey, offset by collecting biennial rather than annual salary data.

Implementation. Implementation for most of these recommendations would require new legislation. Many of the PPSSCC's recommendations have been identified in prior reports or legislative proposals considered by the Congress; none would preempt the President's authority to cap pay adjustments to achieve budgetary and economic policy objectives and to set an example of wage restraint. The Office of Personnel Management could take administrative steps to obtain salary data for more workers in expanded job categories, in not-for-profit organizations, and in smaller private-sector establishments.

Additional Comments. GAO believes that the comparability system is a sound and equitable basis on which to set and adjust pay for federal white-collar workers, and it generally supports the refinements proposed by the PPSSCC. In terms of biennial salary surveys, GAO has recommended basing federal pay adjustments in alternate years on nonfederal salary increases as measured by the Employment Cost Index or the Average Hourly Earnings Index.

References. PPSSCC, Task Force Report on Personnel Management, pp. 102-108. GAO, Additional Improvements Needed in the National Survey of Professional, Administrative, Technical, and Clerical Pay (FPCD - 82-32, April 1982). GAO, Federal Pay-Setting Surveys Could Be Performed More Efficiently (FPCD - 81-50, June 1981). GAO, Proposal to Lower the Federal Compensation Comparability Standard Has Not Been Substantiated (FPCD - 82-4, January 1982). CBO, Compensation Reform for Federal White-Collar Employees: The Administration Proposal and Budgetary Options for 1981 (May 1980).

CHANGE GRADES OF GENERAL SCHEDULE EMPLOYEES (PER-5)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	60	100	245	435	580	1,420
Outlays	60	100	230	410	545	1,345

PPSSCC Proposals. Pay for the federal government's 1.4 million General Schedule (GS) employees is based on their duties and responsibilities as reflected by the grade levels of the positions they occupy. Grade levels for federal positions, as well as job titles and occupational classifications, are determined by means of a classification system that compares a position's duties to job standards prepared by the Office of Personnel Management (OPM). According to the PPSSCC, its recommendations on job classification would save $5.2 billion over three years. Most of the savings would result from recommendations that would accelerate efforts to correct agency "overgrading" of positions--setting them at levels too high--and consistent with PPSSCC's review of private-sector job distribution, would restructure the GS work force to lower its average grade. The restructuring could entail abolishing positions in the middle-management grades 11 through 15.

Budgetary Impact. Consistent with a recent OPM study and as reported by the PPSSCC, incorrect grading of federal jobs costs taxpayers some $0.7 billion a year (calculated as the costs of overgrading minus those of undergrading). Correcting misgrading, according to CBO estimates, could generate near-term budgetary increases accumulating to $0.1 billion through 1989. Unlike the PPSSCC, which estimates three-year cumulative savings of $0.6 billion, the CBO estimates incorporate the effects of job turnover and are adjusted downward to take account of statutes that protect an employee's current pay and grade. The CBO estimates assume that nearly all overgraded positions would be identified and corrected through downgrading by the end of fiscal year 1985. If managers failed to make vigorous efforts to correct misgrading or apply alternatives to downgrading (such as restructuring jobs to justify higher grades), budgetary effects would diminish.

If the federal work force were restructured as the Administration now plans, CBO estimates that the savings would accumulate to $1.4 billion over five years. The estimates assume an 8 percent employment reduction in each GS grade between 11 and 15, phased in over four years beginning in 1985. As with the Administration's planning, the CBO estimate also assumes that positions taken from grades 11 through 15 would be replaced by lower-graded positions, producing no net reduction in federal employment. In contrast, the PPSSCC's estimate of three-year savings, totaling $4.3 billion, implicitly assumes that jobs are eliminated rather than shifted to lower grades.

Program Impact. Correcting overgrading would mean that as many as 188,000 GS employees in overgraded positions could eventually move to lower grades. Downgrading would have no near-term impacts on employees' salaries and benefits, however, because of federal statutes that allow downgraded workers to hold their previous grades and pay for two years. Thereafter, downgraded workers whose salaries exceeded the maximum rate of their correct grade would receive half the annual government-wide pay adjustments until the salary of the lower grade catches up.

Restructuring the work force could mean the loss of 40,000 federal jobs in grades 11 through 15, causing a number of problems for federal managers. Some agencies might have trouble carrying out their tasks with the lower-skilled personnel level that would ensue from the regrading. Employee morale would fall for experienced managers whose promotions were denied or postponed. Restricted promotions might also mean that agencies would find it difficult to recruit a qualified work force. The current distribution of workers in higher grades has resulted in part from rapid promotions that, in some cases, may have been granted to help compensate for below-market salary levels. Reducing upper-graded positions without providing for rehiring at lower grades--as suggested in PPSSCC calculations--would compound the problems of the restructuring effort.

Implementation. The Office of Management and Budget (OMB) and OPM could institute a program to correct misgrading of federal positions. Though OPM does routinely update and revise its job classification standards, neither agency has put together a comprehensive plan for correcting the overgrading problem. As noted above, however, the Administration is already moving ahead on the PPSSCC recommendation to restructure the federal work force. It is reportedly considering a four-year phased reduction, totaling 8 percent, in the number of jobs graded 11 through 15. OMB could enforce these reductions, beginning in 1985, through cuts in agency salary budgets. The Administration targets, which conform with PPSSCC recommendations, would permit implementation through normal attrition without layoffs.

Additional Comments. GAO recognizes the importance of effective job classification and management, and in 1975, it recommended the issuance of a Presidential directive calling for greater emphasis in this area. With regard to overgrading, GAO supports several of the PPSSCC administrative recommendations. In particular, it agrees that routinely updating classification standards, reducing pressure on managers to upgrade positions, and establishing a Presidential priority on improving position management would be constructive steps. GAO cautions, however, that the PPSSCC's basis for recommending reductions in the average grade of federal positions may be flawed. In making its comparison with the private sector, the PPSSCC used a sample of federal workers that did not include federal clerical and technical positions, many of which fall at lower grades. Further, the private-sector data used covers only five unidentified establishments.

References. PPSSCC, Task Force Report on Personnel Management, pp. 82-100. GAO, Classification of Federal White-Collar Jobs Should Be Better Controlled (FPCD - 75-173, December 1975).

STEP UP FEDERAL CONTRACTING OUT FOR SUPPORT SERVICES (PER-12, PROC-18, CONG-4, EX-11)

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
Budget Authority	0	140	420	570	610	1,740
Outlays	0	15	140	270	290	715

PPSSCC Proposals. Executive Branch policy set forth in Office of Management and Budget (OMB) Circular A-76 requires the government to use private contractors for certain support services, including maintenance, security, and data processing, unless federal workers can provide such services at less cost. In four separate volumes, the PPSSCC recommends more contracting out. Specifically, it calls for greater emphasis on Circular A-76--through legislation mandating contracting out and through OMB promotional efforts. It also recommends procedures for streamlining the comparison of federal in-house and contracting-out costs--including exemption of small activities from comparisons altogether.

Budgetary Impact. The CBO estimates that, in the long term, savings from contracting out would be $1.1 billion a year--about one-fifth of the PPSSCC estimate of $5.6 billion. Over three years, the PPSSCC claims that savings would accumulate to $6.4 billion, its number adjusted for double counting. CBO finds, however, that the commission continues to double count estimates set out in different volumes treating contracting out. Moreover, the PPSSCC fails to reduce its estimates to reflect current statutory restrictions on contracting out for certain activities in the Veterans Administration (VA) and the Department of Defense (DoD). The PPSSCC estimates also incorporate much larger average savings per conversion to contract than those of CBO. The CBO estimates reflect comparisons, by occupation and region, of federal and private-sector unit labor costs.

In the near term, savings would be much smaller than the estimated long-term amounts, because the proposals would have to be implemented gradually and there would be costs associated with transferring functions to the private sector, including payments to laid-off federal workers. CBO estimates annual outlay savings over the five-year period 1985-1989 would accumulate to about $0.7 billion. Additional outlay savings approaching

$0.4 billion would occur over the same period if restrictions on contracting out at DoD and the VA were lifted.

Program Impact. CBO estimates show that, under an accelerated A-76 program, as many as 165,000 federal jobs, mostly blue-collar, could shift to private firms. Because of the large DoD work force engaged in performing support services, job shifts in defense agencies would outnumber those in nondefense agencies by nearly three to one. In some instances, according to GAO analysis, increased contracting out might also result in federal agencies' obtaining lower-quality services.

Implementation. Many of the PPSSCC recommendations have already been implemented through administrative action. Over the past two years, the Administration has tried to accelerate and gain support for its Circular A-76 program. In August 1983, moreover, OMB issued revised and simplified cost-comparison guidelines that provided for exemption of small activities as recommended by PPSSCC. Making contracting out mandatory would, of course, require legislative action. But in the past, the Congress has curbed the A-76 program, partly out of concern for preserving national security and the effectiveness of federal programs for veterans.

Additional Comments. Reliance on the private sector for support services has been federal policy since 1955, but without effective implementation. Though Circular A-76 can be carried out administratively, GAO believes that effective implementation will not occur unless the Congress legislates a national policy on contracting out.

References. PPSSCC, Task Force Report on Personnel Management, pp. 152-57. PPSSCC, Task Force Report on Procurement/Contracts/Inventory Management, pp. 114-19. PPSSCC, Report on Management Office Selected Issues, Opportunities Beyond PPSSCC, pp. 2-4. PPSSCC, Report on Management Office Selected Issues, The Cost of Congressional Encroachment, pp. 101-108. GAO, Civil Servants and Contract Employees: Who Should Do What for the Federal Government (FPCD - 81-43, June 1981). GAO, Factors Influencing DoD Decisions to Convert Activities from In-House to Contractor Performance (AFMD - 81-78, April 1981). CBO, Contracting Out for Federal Support Services: Potential Savings and Budgetary Impacts (October 1982).

IMPROVE FEDERAL WORK FORCE PRODUCTIVITY (PER-16, ADP-6)

Savings from CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	-2	-4	480	1,020	1,630	3,124
Outlays	-2	-4	475	1.020	1,625	3,114

NOTE: Negative figures indicate costs.

PPSSCC Proposal. The commission contends that the federal government, like any other employer, can improve productivity (output of goods and services per worker) by changing its methods of operation, raising employees' skill levels, and investing more than it does now in work-facilitating equipment. On the belief that the federal government has thus far assigned too low a priority to productivity and has thus failed to realize major economies, the PPSSCC recommends several corrective measures. Specifically, it would effect organizational changes throughout the Executive Branch by:

- Instituting a new unit in the General Services Administration (GSA) to provide technical support,
- Establishing a new office to set policy guidelines, prepare plans, and offer management assistance to federal agencies, and
- Scheduling reviews by the GAO of agency office-automation activities.

To strengthen federal productivity in both office and nonoffice activity, the PPSSCC recommends that:

- A new, permanent organization be established in the Office of Management and Budget (OMB) to concern itself with productivity management governmentwide, and
- The Office of Personnel Management (OPM) resume offering assistance for use of incentive awards, training, performance evaluations, and other managerial techniques.

Other recommendations would require OMB to help safeguard against impeding promotions of supervisors or automatically causing budgetary reductions in agency totals. (For other PPSSCC-proposed federal productivity improvements, see separate analyses of PROP-6 and SSA-4.)

Budgetary Impact. Because little is known about factors such as the timing and costs of implementation, difficulty arises in evaluating any improvements in labor productivity that could ensue from such organizational and management changes as the PPSSCC proposes. Furthermore, assumptions about the size of the federal personnel pool affected, the investment cost of new equipment and training, and the attendant yield in productivity are highly subjective. As a result, the CBO estimates outlined below should be viewed as tentative.

The commission estimates total three-year savings of $17.1 billion from its plan, and going further, five-year savings of $36.1 billion. Incorporating costs for extra administrative expenses but not additional capital investment, the CBO estimates represent only fractions of these three- and five-year savings. The CBO estimates assume that the PPSSCC's management proposals could lead to an added federal productivity rise of about 4.4 percent by 1990--boosting the productivity gain over four years to about 11.6 percent. In current 1985 dollars, this would yield net annual long-term compensation savings of some $1.8 billion; but because of the time required to accomplish changes, the near-term outlay savings would amount to only $0.5 billion over three years and $3.1 billion through 1989.

Unlike the PPSSCC's estimates, CBO's projections do not add productivity gains from automating offices on top of overall gains estimated for the federal work force at large. This treatment of the office automation recommendations accounts for about half of the difference in estimated five-year savings. Most of the remaining difference results from discrepancies in assumptions in two areas. First, in the work force considered, CBO assumes that only about 55 percent of the agencies' productivity improvements would result in employment reductions that easily translate into budgetary savings. The CBO estimates, for example, exclude employees of certain off-budget federal entities such as the U.S. Postal Service and the Tennessee Valley Authority. Professional employees are also excluded from CBO's computations, because productivity gains commonly bring about improved quality of professional service, not reduced staff. Other portions of the federal work force are excluded, including those in real property management and Social Security, mainly to avoid double counting savings associated with the other PPSSCC proposals cited above. Second, the CBO estimates assume realization of a slightly lower and more gradual general productivity gain--4.4 percent by 1990, versus 5.0 percent in the first year.

Program Impact. According to CBO estimates, productivity improvements could cause a gradual reduction of some 65,000 jobs, or 4.3 percent of the employee population affected. Such a reduction could be achieved by attrition (not filling vacancies), rather than by sizable layoffs. Thus, no dramatic changes in federal program levels need follow. The PPSSCC calculations, in contrast, assume about 260,000 federal civilian jobs would be eliminated--a diminution that could not be accomplished through attrition.

Potential governmentwide improvements in labor productivity, according to GAO calculations, would come mainly from five categories of federal work: compliance and enforcement of regulations, natural resource and environmental management, education and training, administration of loans and grants, and health-related services. If operations in these areas and others that have experienced below-average growth during the 1978-1981 period were brought up to the average for similar types of federal work, governmentwide federal productivity could eventually rise by the extra 4.4 percent cited above. GAO analysis indicates that it is not unreasonable to assume such an increase might be reached gradually over a four-year period.

Some observers, however, see achieving such annual productivity gains as overoptimistic, especially in the context of federal experience, which shows annual growth averaging less than 2 percent since 1977. In addition, certain factors unique to the federal government might dampen near-term opportunities for greatly improved productivity. Current budgetary strictures, for example, could postpone many new equipment purchases. Employee morale could be eroded by continuing to effect cuts in compensation. And operational flexibility could be restricted if program cuts meant lower output requirements. Finally, certain types of federal work--such as research, enforcement, and policy analysis--cannot be reliably quantified, and measurement mechanisms might, in fact, prove counterproductive.

Implementation. Active support by OMB, as well as by operating agencies, would be required to carry out the PPSSCC productivity recommendations. Up to now, however, OMB has argued that productivity analysis constitutes but one of many tools for managing agency programs, and it believes that ongoing management efforts provide sufficient direction. New administrative mechanisms would have to monitor performance closely; at present only about half of the federal non-postal work force is covered by the governmentwide productivity measurement system. Carrying out the recommendations would also entail appropriation action by the Congress to provide the necessary staff to OMB, OPM, GSA, and other agencies and possibly, to fund accelerated investments in work-facilitating equipment. For office automation, PPSSCC recommends over the next four years an equipment investment goal of $4,000 for every federal office worker. Although data limitations make it difficult to know how much is already being invested in office automation, projections from 1983 data on automated data processing and general office equipment procurements suggest that higher rates of investment are not needed to achieve the PPSSCC goal. (As noted above, CBO projections do not assume accelerated capital investments, but any increase would offset estimated personnel savings.)

Additional Comments. Though GAO generally supports efforts to further federal office automation, it believes that having its own staff review the programs of every Executive Branch agency would be inappropriate. GAO especially endorses the commission's advice that budget cuts not penalize agencies' efforts to improve productivity. Approaches such as reprogramming savings into other activities, however, would reduce potential for governmentwide budget reductions.

Despite considerable federal activity and interest in improved productivity over the past 12 years, GAO has found agency efforts ill-prepared and poorly directed, disjointed, short-lived, and hence, ineffective. Neither OMB nor OPM currently offer much support to such efforts. GAO cautions against hasty or overly extravagant purchase of computers and other office-automating equipment. Time for proper planning of new systems, including work methods and performance standards, should precede purchase and installation of new equipment--possibly delaying potential short-term productivity gains but improving long-term prospects. In addition, GAO reviews suggest that reductions in the federal work force resulting from office automation might be less than the 10 percent gain assumed by the PPSSCC, because of different effects on professional and clerical personnel.

Any efforts to improve productivity should consider all the cost factors involved. Some analysts warn that focusing management and budgetary decisions on labor costs alone, while ignoring the cost of capital, can misallocate resources. Major efforts to increase federal productivity should also take into account certain contingency costs, such as expenses for entitlement benefits (severance pay, for example) to laid-off federal workers, as well as certain other costs that do not necessarily show up as budgetary expenditures, including reduced quality and lower output during transition.

References. PPSSCC, Report on Personnel Management, pp. 180-86. PPSSCC, Report on Office Automation, pp. 76-83. GAO, Increased Use of Productivity Management Can Help Control Government Costs (AFMD - 84-11, November 1983). GAO, Ways to Improve Federal Management and Use of Productivity Based Reward Systems (FPCD - 81-24, December 1981). GAO, Improving the Productivity of Federal Payment Centers Could Save Millions (FGMSD - 80-13, February 1980). GAO, Improving Agency Efficiency Through the Use of Productivity Data in the Budget Process (FGMSD - 78-33, May 1978). GAO, Strong Central Management of Office Automation Will Boost Productivity (AFMD - 82-54, September 1982). GAO, Federal Productivity Will Suffer Because Word Processing Is Not Well Managed (FGMSD - 79-17, April 1979).

IMPROVE SOCIAL SECURITY ADMINISTRATION MANAGEMENT (SSA-4)

CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	0	0	-2	-11	-27	-40
Outlays	0	0	50	110	180	340

NOTE: Negative figures indicate increases in income to the Social Security trust funds, expressed as budget authority associated with growth in fund balances.

PPPSSCC Proposal. The PPSSCC would institute a supervisory management system at the Social Security Administration (SSA) with the aim of improving productivity (output per worker) by some 50 percent. The system would entail having managers devise, communicate, and execute daily work plans. In addition, production goals for field offices would be set, work performance closely monitored, and work forces assigned to supervisors reduced by half. The PPSSCC estimates that its recommendations would enable work now performed by the equivalent of 54,000 of the SSA's nonsupervisory, nonadministrative staff to be produced with 36,000 workers--a personnel reduction of 18,000.

Budgetary Impact. Savings could be achieved from improved SSA management procedures, although how much is difficult to estimate. The PPSSCC estimates that its proposal would save $1.3 and $2.3 billion over three- and five-year periods, respectively. CBO estimates a more conservative effect, with savings of $0.3 billion over the 1985-1989 period. About two-thirds of the estimating difference derives from a much more modest productivity-improvement target incorporated in CBO's savings. In contrast to the PPSSCC's assumed 50 percent increase, CBO assumed that productivity would grow by an extra 11 percent. Most of the remaining difference derives from assumptions about implementation and timing. The CBO estimates assume the extra growth would be achieved over three years beginning in 1987, while the PPSSCC estimates assume full implementation in the first year.

The 50 percent productivity growth envisioned in the PPSSCC estimates is drawn both from the commission's general belief that most workers perform at half their capacity, and from observations by commission members of highly productive SSA claims processors at selected field offices. Commission findings--that workflow entails too much paperwork and handling--confirm results of a 1980 consultant study prepared for the SSA and based on a comprehensive on-site analysis of work practices. Nonetheless, the PPSSCC conclusion is based on only one type of claim activity (retirement insurance benefits) and on an unspecified sample size and design. As a result, extrapolation of findings across the entire field of SSA operation may lead to overoptimistic expectations about the potential for reducing near-term federal costs.

The CBO bases its estimates on GAO analysis, which suggests that improved SSA management, goal setting, and work processes could--conservatively--increase productivity by some 11 percent and enable nonsupervisory, nonadministrative field staffing to shrink by some 6,400 workyears. In its study, GAO ranked 1978 productivity performance for some three dozen separate field activities in each of the ten SSA regions, and then calculated the staffing cutbacks that could occur if average regional activity for each task were brought up to the level of the third highest region. The more conservative budgetary estimate used by CBO hedges against unrealistic expectations that might not materialize because of uncertainty about the effect of management changes.

Program Impact. Producing today's level of SSA service with fewer workers would not affect the average Social Security recipient. Some internal SSA training operations could be shifted. Any savings would reduce budgetary outlays and result in higher trust fund balances.

Implementation. Proposed productivity improvements and employment reductions could be implemented by administrative action. Funding for retraining is currently available in the SSA's budget, although even with some reprogramming, small additional administrative costs could arise. At the level projected by CBO, most of the personnel cutback could be met through attrition (not filling vacancies). The one-third cut--18,000 jobs--targeted by the PPSSCC, however, would probably be impossible to implement effectively. Staff reductions on such a scale can encounter strong opposition, create their own morale and productivity problems, and incur such large costs for entitlement benefits to laid-off employees that near-term savings would disappear.

Additional Comments. GAO concurs with the PPSSCC recommendations calling for systems to improve management of SSA field production and to increase productivity. Though the SSA operates more than 1,300 field offices nationwide, standard procedures or techniques for managing them have not been developed. As a result, productivity among SSA offices varies widely and presents ample opportunity for improvement.

References. PPSSCC, Task Force Report on the Department of Health and Human Services, Social Security Administration, pp. 89-103. GAO, Social Security's Field Office Management Can Be Improved and Millions Can Be Saved Annually Through Increased Productivity (HRD - 82-47, 1982). GAO, Selected Government-Wide Management Improvement Efforts--1970- 1980 (GGD - 83-69, 1983). GAO, The Federal Role in Improving Productivity--Is the National Center for Productivity and Quality of Working Life the Proper Mechanism? (FGMSD - 78-26, 1978). GAO, OMB Needs to Intensify Its Work Measurement Effort (FPCD - 78-26, 1978).

IMPROVE PRODUCTIVITY OF FEDERAL MAINTENANCE PERSONNEL (PROP-6)

CBO Baseline	Annual Savings (millions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Budget Authority	0	0	40	90	150	280
Outlays	0	0	40	85	140	265

PPSSCC Proposal. The PPSSCC proposes a comprehensive effort to improve the productivity (output of services per worker) of the more than 90,000 blue-collar federal workers who maintain, repair, and do alteration construction on the government's real property. Specifically, the plan entails, among other things:

- Creating central productivity groups within each agency,
- Using incentives to improve management, and
- Hiring private-sector management consultants.

According to the PPSSCC, a 48 percent productivity improvement would result, with attendant savings in federal costs.

Budgetary Impact. The PPSSCC estimates that efficiency gains in property maintenance would generate a three-year deficit reduction of $1.1 billion--nearly four times the CBO estimate of $0.3 billion. The CBO calculation reflects reductions in personnel costs from a gradual productivity gain of about 10 percent effected over four years, beginning in 1987. This target represents the extra productivity that GAO calculation suggests would occur if federal maintenance-related activities with below-average productivity histories were brought up to the federal average for similar work. The higher PPSSCC gain, on the other hand, reflects productivity growth experienced by unspecified private-sector establishments, and this gain is assumed to occur in the first year, not over a longer time. In contrast to the PPSSCC approach, CBO adjusts its estimate to take account of both implementation costs and activities for which geographic dispersion, small size, or nonrecurring nature of work impede productivity gains.

Program Impact. GAO analysis suggests ample room for improvement in current federal productivity efforts, and implementation of the PPSSCC's recommendations would likely increase the efficiency of maintenance personnel. Improvements in productivity growth at the level estimated by CBO could mean a reduction of some 6,500 blue-collar jobs. Such a reduction could be achieved by attrition (not filling vacancies), rather than by laying off employees, and thus it would not dramatically affect the level of work done. By contrast, an extra productivity gain at the level assumed by PPSSCC would mean the loss of 24,000 federal jobs and would necessitate layoffs. (Layoffs have budgetary consequences of their own and could actually generate costs instead of savings.)

Implementation. Instituting the changes recommended by the PPSSCC would require administrative actions by managers in each of the Executive Branch departments and agencies that undertake real property maintenance. The General Services Administration, the Department of Defense, and the Veterans Administration stand to be particularly affected, as these agencies have especially large property maintenance programs. Any additional funds for hiring outside consultants or for training would have to be appropriated by Congressional action.

Additional Comments. Many of the specific PPSSCC recommendations, including calls for performance incentives, are consistent with those made in various GAO reports. GAO's study of productivity improvement efforts underscores the importance to the success of such programs of sufficient resources and strong management commitment at all levels.

References. PPSSCC, Task Force Report on Real Property Management, pp. 58-62. GAO, Major Cost Savings Can Be Achieved by Increasing Productivity in Real Property Management (LCD - 76-320, August 1976). GAO, Improving Productivity in Real Property Management Would Save Money for Certain Agencies (LCD - 77-343, May 1978). GAO, Increased Use of Productivity Management Can Help Control Government Costs (AFMD - 84-11, November 1983).

REDUCE PAID ANNUAL LEAVE BENEFITS FOR FEDERAL EMPLOYEES (PER-3)

Savings from CBO Baseline	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
Budget Authority	175	370	395	415	440	1,795
Outlays	175	365	390	410	430	1,770

PPSSCC Proposals. To improve the alignment of federal annual leave policies with private-sector practices, the PPSSCC recommends three measures: requiring employees to work 180 days without a break in service before they can take paid annual leave; decreasing the amount of such leave available to federal workers--except those employed for at least 25 years; and requiring that annual leave earned in the future be forfeited unless used in the year it is earned. Under current law, most federal employees can carry over to a new calendar year a maximum of 30 days (240 hours) of annual leave; members of the Senior Executive Service (SES) can accumulate an unlimited amount. Earnings for accumulated leave are payable in cash upon an employee's separation from federal service. While the PPSSCC would not reduce the amount of paid annual leave already accumulated by federal employees, it recommends repealing the unlimited leave accumulation for SES members so long as their salaries are not constrained by pay ceilings.

Budgetary Impact. On the basis of data from the Office of Personnel Management, CBO estimates show that the PPSSCC's proposal could on the whole reduce outlays over the 1985-1989 period by $1.8 billion if implemented as described. These savings assume that the specified cutback in paid leave benefits would generate more time on the job per worker and would thus permit a decline of about 1.5 percent in federal personnel requirements, some of which are currently met by hiring intermittent and part-time workers and by requiring overtime work. The estimated increase in time spent on the job derives from a projected decrease in average days of leave used per year--from 19 days under current policy to 15.5 days under the new scheme.

The PPSSCC's estimated savings of more than $1 billion a year do not reflect near-term cash impacts on the federal budget. Instead, they represent the estimated value as a percent of covered payroll for annual leave earned under current policies less the value that would result under the PPSSCC's recommendations. This implies that each day of annual leave cut would save a day's worth of payroll. But federal employees are paid the same salary whether they are at work or on annual leave. Therefore, having less annual leave accrue each year would not directly reduce near-term budgetary outlays, unless federal work force levels were reduced. The PPSSCC estimates, which are more than double the CBO calculation of annual near-term savings, fail to recognize that employees would tend to use almost all of the smaller amount of leave earned--especially since it could not be accumulated--and that some leave now earned under current policy is forfeited, accrued for future use, or converted to lump-sum payments in later years. The potential near-term decline, at best, would likely occur evenly throughout the first year and thus, as seen in the CBO estimates, generate about half the full-year savings.

Program Impact. If the Congress decided to pattern federal leave policy after practices in the private sector, the average number of hours worked per employee would not necessarily change significantly. Comparison of federal and private-sector practices is influenced by the particular measures and comparative framework employed. Comparisons are made difficult by differences in type of leave, scheduled work hours, and variations among industries and geographic areas.

The GAO believes that the PPSSCC comparisons are misleading because they fail to incorporate paid time off taken in the private sector for personal reasons, which is not charged to earned vacation time. Indeed, when all types of paid time taken off are considered--other than sick leave--modeling federal work schedules after the private sector would cause federal employees to spend less time on the job--on average, about 11 fewer hours per year. In that case, the federal government would need to employ 9,000 more workers and spend more for associated pay and benefits.

On the basis of specifications derived from PPSSCC comparisons, however, the average reduction in annual leave earned per year for federal civilian employees, excluding U.S. Postal Service employees, would average about four days--dropping from 20 to 16. Federal employees, except those with more than 25 years of service, would accrue at least three fewer days per year. But employees with between three and five years of service would accrue eight fewer days--12 instead of 20. Because of the use-or-lose recommendation, most employees would take all of the annual leave they accumulated. The net effect of higher usage rates and lower levels of earned annual leave proposed by the PPSSCC could increase the amount of time on the job by about 13,000 work-years. If so, an equivalent number of federal jobs could be abolished without affecting government services. Finally, unless agencies were authorized to advance leave, federal workers would be unable to take vacation during the first few months of any calendar year.

Implementation. Each of the PPSSCC recommendations would require legislative action. Measures directly opposite to those recommended by the PPSSCC were taken by the Congress in 1973 when it eliminated the 90-day period of employment that federal workers had to serve before they could take annual leave.

Additional Comments. GAO believes that most elements of the PPSSCC proposal have little or no merit, because the recommended cutbacks to reflect private-sector practice are not based on a proper comparison. GAO supports, however, consideration of the proposed limit on annual leave accumulated by SES employees if, at the same time, the ceilings limiting their salaries were lifted.

References. PPSSCC, Task Force on Personnel Management, pp. 66-71. CBO, Adjustments in Federal White-Collar Pay: Technical Review of Past Proposals and the Outlook for October 1983, Staff Working Paper (March 1983), pp. 11-18.

CHAPTER VI. REVENUES

The PPSSCC reports offer several revenue-raising proposals that could help to narrow the long-term federal deficit. The revenue provisions include four tax policy recommendations, as well as several initiatives that could mean more efficient management of the federal government's cash flow, such as shortening tax deferral periods allowed some taxpayers or accelerating the government's deposits of tax and other receipts. Of the tax policy recommendations analyzed, the most far-reaching is the proposal calling for taxation of federal subsidy payments.

CBO estimates that the overall savings from the proposals discussed in this chapter would reduce the deficit by about $16 billion over the 1985-1987 period ($43 billion over the 1985-1989 period)--not counting one proposal that CBO could not estimate. The PPSSCC savings estimate of the same proposals is $73 billion over three years, once they are fully implemented. Including the savings for the omitted proposal raises the PPSSCC estimate to a total of $76 billion.

The difference between the CBO and PPSSCC revenue estimates arises from several factors, including differences in the methodologies used to make the estimates. Actions have already been taken by the Congress and the Administration to achieve some of the savings and, to that extent, the CBO estimates of additional savings have been lowered. The CBO estimates also include transition or start-up revenue effects, whereas the PPSSCC estimates are intended to indicate the potential long-run savings after the changes are firmly established. Although several of the proposals involve acceleration of government cash flow in the initial year of implementation (which CBO includes in its estimates), the long-run PPSSCC estimates do not include these temporary effects. If the initial revenue gains from cash acceleration were included, an additional $13 billion (according to the PPSSCC) in savings would be realized.

In addition, the PPSSCC includes the savings from reduced interest payments (from a lower federal deficit) in estimating the savings from several proposals. CBO does not ascribe such interest savings to particular proposals; rather, CBO computes only the net impact on interest outlays stemming from all the PPSSCC proposals taken together (see Chapter I). If interest savings ($5.5 billion) are excluded from the PPSSCC estimates, and cash acceleration is included, their total three-year saving would be about $83 billion. Finally, excluding the proposal CBO could not estimate, yields a net PPSSCC saving of $71 billion, as compared to the CBO estimate of $16 billion in the first three years.

TAX POLICY INITIATIVES

The PPSSCC's tax policy changes reviewed in this report include taxing federal subsidy payments, limiting the use of tax-exempt bonds for private purposes, indexing federal highway taxes for inflation, and increasing Railroad Retirement payroll taxes. CBO estimates the 1985-1989 deficit reduction from these proposals to be about $27 billion (see Table VI-1).

TABLE VI-1. CBO ESTIMATES OF SAVINGS FROM PPSSCC TAX POLICY PROPOSALS

Addition to CBO Baseline	Annual Savings (billions of dollars)					Cumulative Five-Year Addition
	1985	1986	1987	1988	1989	
Tax Federal Subsidies a/	0.0	3.0	4.0	4.0	4.0	15.0
Limit Use of Tax-Exempt Bonds for Private Purposes	0.3	1.0	1.9	2.7	3.6	9.5
Index Federal Highway Taxes for Inflation	0	0.1	0.4	0.8	1.1	2.4
Increase Railroad Retirement Tier 2 Taxes b/	0	0	0	0	0	0
Total	0.3	4.1	6.3	7.5	8.7	26.9

a. Subsidies are defined here as means-tested programs, of which 72 are considered. The largest programs are Medicaid, AFDC, SSI, Food Stamps, and housing subsidies.

b. Payroll contributions by employees and employers to the Railroad Retirement trust fund.

Tax Federal Subsidies

The PPSSCC recommends that federal subsidies be subject to taxation in order to reduce the extent that benefit payments made by various programs overlap one another. Under the proposal, federal agencies such as the Department of Agriculture or Department of Health and Human Services would be required to provide recipients (and the Internal Revenue Service) with an information return similar to the W-2 form that employees currently receive from employers. Recipients would be required to include some portion of their benefits in calculating their taxable income. Not only would taxing benefits reduce the subsidies received by some individuals and businesses, but the information returns could lead to better coordination of federal subsidy programs.

The PPSSCC indicates its proposal is necessary because many federally subsidized programs (especially means-tested programs) have not been effective in reducing the poverty gap because they serve individuals who have incomes above the poverty level. However, GAO believes that the programs included by the PPSSCC in the category of means-tested programs were not primarily intended to reduce the poverty level. For example, Medicaid, the program representing the largest expenditures, was designed to meet otherwise unmet health needs. Persons qualify for benefits because they do not have enough resources or income to pay for medical services.

GAO believes that because these means-tested programs were set up to provide services or benefits to help individuals with specific problems, the PPSSCC proposal to reduce benefits to individuals through taxation is contrary to the legislative intent behind the establishment of each program. Implementation would also be difficult because many means-tested programs are jointly administered by the federal and state governments; the impact on the states and their reaction to this proposal has to be seriously considered. Also, the PPSSCC did not resolve the problem of how to determine the cash value to a beneficiary of an in-kind benefit (for example, medical services under Medicaid) which would be essential for the purpose of taxation. For these and other reasons, GAO believes that implementation of this proposal would be exceptionally difficult and problematic.

Although the PPSSCC discusses the inclusion of all federal subsidies--both from outlay programs like Social Security and from tax expenditures like accelerated depreciation--in taxable income, its estimated savings result solely from the taxation of means-tested benefits. CBO estimates that taxation of means-tested benefits could raise significant revenues--

roughly $15 billion over the 1985-1989 period, while the PPSSCC estimates that it would raise much more--$59 billion--over the first three years. The CBO savings estimate differs from that of the PPSSCC for a number of reasons, including a lower estimate of total federal means-tested benefits, as well as a lower effective tax rate. Taxing all federal subsidies, however, could easily raise much more revenue than the amount estimated by the PPSSCC. That might include, for example, the taxation of subsidies provided through the tax code, such as the deduction for mortgage interest.

Limit Tax-Exempt Bonds

CBO estimates that the limits proposed by PPSSCC on the use of tax-exempt bonds for private purposes would raise about $3.2 billion over the 1985-1987 period and $9.5 billion over the 1985-1989 period. These estimates compare with PPSSCC's of $5.2 billion over three years. The PPSSCC's recommendations would limit the volume of new tax-exempt state and local government bonds issued to provide below-market-interest-rate loans for privately-owned investments in a wide variety of enterprises, including manufacturing, retail and service industries, sports facilities, hospitals, and housing. Because the current tax exemption subsidizes investment in certain activities, it encourages the allocation of capital to those activities. The resulting allocation may be inefficient because the capital might be put to other more productive purposes. The recommendation would not affect revenue or general obligation bonds, which are generally issued for public facilities such as sewers, schools, and roads. These would continue to benefit from the federal subsidy provided by the tax exemption.

Index Highway Taxes for Inflation

The proposal to index federal highway taxes for inflation would raise about $3.7 billion over the 1985-1987 period. (The PPSSCC estimate was $2.0 billion, because it did not take account of inflation after the first year.) However, provisions already in law, plus a projected increase in highway usage, will cause Highway Trust Fund revenues to grow nearly enough to match inflation during the next three years. CBO estimates that only $0.5 billion is needed to maintain trust fund revenues in real terms over the next three years, and $2.4 billion over the 1985-1989 period. GAO has recommended that the Congress raise the gasoline tax so that it reflects inflation in highway construction and maintenance costs.

Increase Railroad Retirement Taxes

The final tax policy proposal--raising the payroll tax rate for Railroad Retirement--has already been enacted by Congress in the Railroad Retirement Solvency Act (P.L. 98-76), and hence no revenue gain is credited to the proposal.

MANAGEMENT INITIATIVES

The PPSSCC report outlines several proposals to improve the government's handling of its cash flow. The improvements would essentially reduce the interval between the time a tax or other payment is due and the time the government has use of the funds. CBO estimates the five-year net savings of these proposals to be roughly $2.6 billion, plus another $13 billion from improving federal tax administration (see Table VI-2).

Improve Federal Tax Administration

The most significant management initiative considered here is the improvement of federal tax administration. This would include annual increases in IRS staffing of 2,500 positions over the next few years to raise the service's audit coverage of individual tax returns from the projected 1984 level of 1.3 percent to 1.8 percent by 1989. (As recently as 1976, the examination rate was 2.6 percent.) Evidence indicates that taxpayer compliance has fallen and that increased audit coverage might raise significant revenues. The IRS reported that the revenue lost in 1981 because of underreporting of income from legal activities was about $80 billion. While raising the examination rate on tax returns increases compliance costs for some taxpayers, tax evasion imposes an unfair burden on all those who honestly comply. This proposal is consistent with GAO's conclusions that staffing has not been adequate to respond to increasing problems in taxpayer compliance. CBO estimates that improving tax administration would raise $3.7 billion during the 1985-1987 period, and $13 billion over the 1985-1989 period; the three-year PPSSCC estimate is $10.7 billion. The CBO estimate is lower primarily because of action already taken by the Congress to augment the IRS's staffing for the collection of delinquent taxes.

Accelerate Deposit of State and Local Social Security Taxes

The PPSSCC estimates that treating state and local governments like private employers for purposes of depositing Social Security taxes would raise $1.7 billion over three years. This issue was partially addressed in the

TABLE VI-2. CBO ESTIMATES OF SAVINGS FROM PPSSCC MANAGEMENT INITIATIVES

Addition to CBO Baseline	Annual Savings (billions of dollars) 1985	1986	1987	1988	1989	Cumulative Five-Year Addition
Improve Federal Tax Administration	0.3	1.1	2.3	3.8	5.5	13.0
Accelerate State-Local Deposit of Social Security Taxes	0.7	*	0.1	0.1	0.1	1.0
Accelerate Deposit of Federal Receipts	a/	a/	a/	a/	a/	a/
Accelerate Deposits by IRS Service Centers	*	*	*	*	*	0.1
Extend FTD to Individual Estimated Tax Receipts	0.1	0.1	0.1	0.1	0.1	0.3
Accelerate Collection of Alcohol and Tobacco Taxes	0.9	-0.2	*	*	*	0.8
Accelerate Collection of Customs Duties	0.3	*	*	*	*	0.4
Total	2.3	1.0	2.5	4.0	5.7	15.5

* Less than $50 million.

a. The budgetary impact of the PPSSCC recommendation cannot be estimated with available information.

Social Security Amendments of 1983, which shortened from one month to 15 days the deferral period allowed state and local governments for depositing withheld Social Security taxes. Further shortening of 10 to 12 days would be needed to meet the PPSSCC recommendation and would raise \$0.7 billion (according to CBO) in 1984 and \$1.0 billion over the 1985-1989 period. (State and local governments are currently held to this rule in depositing withheld income taxes.) Any benefits at the federal level would be exactly offset by losses by other levels of government. In order to implement this proposal, Congressional action would be necessary.

Accelerate Deposit of Federal Receipts

The PPSSCC has also recommended a number of administrative steps to accelerate the deposit of federal receipts. These include requiring the use of electronic funds transfer (instead of checks) for large payments, expanding the use of lockboxes by executive agencies to collect receipts, and using the Automated Clearing House system to automatically withdraw funds from bank accounts when installment payments are due. The eventual revenue gains from implementing these systems cannot be accurately estimated, but roughly \$100 billion in federal receipts might be accelerated through these methods. Although the PPSSCC has estimated a three-year savings from these proposals of \$12.2 billion, CBO estimates that the actual savings might be only half that amount because of lower estimates of potential receipts that might be accelerated, lower estimates of time savings, and duplication among collection methods. The cost-effectiveness of each system should be analyzed in order to select the most efficient collection method for each type of receipt. Currently, the Treasury is encouraging the expanded use of electronic transfers and lockboxes, as well as starting a pilot program for automatic account withdrawals. In general, Congressional action is not required to implement these systems.

The PPSSCC also believes tax deposits could be accelerated by changing procedures at IRS Service Centers to process taxpayers' checks faster, and by requiring individuals paying estimated taxes to pay their quarterly installments through the Federal Tax Deposit System. Both these options could be implemented without Congressional action. The PPSSCC estimates that these proposals would raise \$1.5 billion--including \$1.1 billion in cash acceleration and \$0.4 billion in interest savings--over three years. CBO estimates that changes in the timing of payments would occur within fiscal years and, therefore, no fiscal year cash acceleration would result from these proposals. However, to the extent that revenues were accelerated within a fiscal year, the Treasury would reduce its borrowing costs. CBO estimates that the combined interest savings would be about \$0.1 billion annually for these two proposals.

Accelerate Collection of Customs Duties and Alcohol and Tobacco Taxes

Two other management proposals of the PPSSCC would probably require direct Congressional action to implement. These are the acceleration of the collection of customs duties, and the elimination of the deferral periods for alcohol and tobacco taxes. Currently payers of customs duties or alcohol and tobacco taxes are allowed deferral periods of two weeks to one month from the time a tax liability is incurred until the time it is due the Treasury. In the case of distilled spirits and tobacco taxes, legislation would be needed to amend the Internal Revenue Code to eliminate tax deferrals. In addition, the PPSSCC recommends that the Congress lift its appropriations ban that prevents the Treasury from requiring the use of electronic transfers (or lockboxes) for the payment of alcohol and tobacco taxes. The Congress has also prevented an acceleration of the payment of customs duties (or the charging of interest on these deferrals). Although no statutory ban is currently in effect, Congressional action would probably be needed to reduce the current two-week deferral of customs duty payments. GAO believes that before any action is taken to change the tax deferral period, a careful examination is needed to determine the economic impact of this change on the alcohol and tobacco industries. Both the PPSSCC and CBO estimate that eliminating deferrals for customs and alcohol and tobacco taxes would increase revenues by about $1.2 billion in 1985, with minimal revenue effects thereafter.

In general, although the CBO revenue estimates of the PPSSCC proposals are less than the commission's estimates, adoption of the proposals would help to lessen the long-term budget deficit. To the extent that the taxation of federal subsidies included more than the means-tested programs, budget savings could be very large. The cash management initiatives, although not large revenue raisers, seem worth exploring because they could contribute to more cost-effective federal management. The individual PPSSCC proposals are discussed more fully below.

TAX FEDERAL SUBSIDIES (SUB-1-1)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1985	1986	1987	1988	1989	
Addition to CBO Baseline	0	3	4	4	4	15

NOTE: Estimates are for taxing means-tested benefits only.

PPSSCC Proposal. The PPSSCC proposes expanding income tax coverage to the benefits available to individuals and businesses under an array of federal subsidy programs. The scope of this proposal is very broad, ranging from such direct cash payment as benefits under Social Security or the Aid to Families with Dependent Children (AFDC) program, to in-kind goods and services such as food stamps and Medicaid, to credit subsidies such as the enterprise support offered by the Small Business Administration, to tax advantages such as the Investment Tax Credit, which benefits many industries. Particularly in the programs that assist individuals, the PPSSCC contends that poor targeting and duplication of benefits to recipients qualifying for several programs give rise to substantial waste of federal dollars. Besides the potential increase in tax receipts, the PPSSCC sees improved program coordination as an important secondary advantage from taxing federal subsidies.

The mechanism the PPSSCC proposes for implementing such a broadening of the federal tax base would require the agencies that operate subsidy programs to issue end-of-year tax returns comparable to employers' W-2 wage statements. As with W-2 forms, copies would be sent to the Internal Revenue Service (IRS). Total benefits above some specified amount would be subject to ordinary income tax.

Budgetary Impact. The PPSSCC estimates that the revenue gain from taxing means-tested benefits alone would be $17.8 billion in the first year, rising to $58.9 billion over the three-year period. By contrast, CBO estimates the revenue gain to be $7 billion over the 1985-1987 period and $15 billion by 1989.

CBO finds the PPSSCC estimate overstated for several reasons. First, CBO calculations of combined federal benefits directed to recipients of means-tested programs--about $100 billion both for 1985 and for 1986--are lower than those assumed by the PPSSCC. (These include benefits from a wide array of means-tested programs, the largest being AFDC, Supplemental Security Income, Medicaid, Food Stamps, and housing subsidies.) Second, survey data collected by the Department of Health and Human Services (HHS) suggest less multiple receipt of benefits targeted to the poor than the PPSSCC assumes. For a few programs, eligibility for one is conferred on the basis of participation in another; for example, Medicaid eligibility is automatic for AFDC recipients. For most others, however, the degree of overlap is not great. Thus, of all families and unrelated individuals receiving cash assistance payments and Medicaid benefits in 1979, about 7.5 million (less than 10 percent) also received housing allowances and food stamps simultaneously. Moreover, certain means-tested programs already take account of multiple eligibility, adjusting benefits from one to reflect additions to recipients' incomes attributable to receipt of benefits from another; for example, when food stamp allotments are calculated, the value of AFDC benefits (if any) is included as a portion of recipients' incomes.

Third, even if all federal means-tested benefits were treated as taxable income, the tax rates applied to these incomes would be much lower than those assumed by the PPSSCC. According to the HHS survey, more than half of all cash benefits, Medicaid benefits, housing allowances, and food stamps together went to recipients with annual incomes (before transfers) at or below 25 percent of the 1979 poverty level--which is currently set at about $7,000 for a family of four. About one-quarter of all benefits went to recipients with incomes above the poverty level, but typically, the total benefit amounts they received summed to less than $2,000. Finally, for the first year of implementation, assumed to be 1985, CBO estimates a zero revenue gain. The delay would result from time lost in coordinating tax reporting and processing systems not only among states participating in the programs, but also between the states and the federal government (for further discussion of intergovernmental coordination, see below under Implementation). The combined effects of these differences result in CBO's estimating a significantly lower revenue gain--below 20 percent of the PPSSCC's three-year estimate.

PPSSCC estimates do not include the revenue gains from taxing federal subsidies other than means-tested benefits. The revenue gain from taxing federal benefits on a wider scale cannot be estimated accurately, however. Depending on how comprehensive a definition of income one chooses, tax collections could be significantly higher. In examining the relationship between the total incomes and taxable income in the United States, the Joint Committee on Taxation recently concluded that the current individual income tax base could realistically be increased on the order of $600 billion by subjecting to taxation items such as fringe benefits and investment income from pension plans. Other studies confirm that the revenue gain from a more comprehensive income tax base could exceed 50 percent of current tax liabilities. (CBO estimates 1985 income tax revenues will exceed $300 billion.) Proposals to broaden the tax base, however, are generally coupled with reductions in the rate structure, so the net revenue gain from such base-broadening efforts would likely be less than that.

The federal government's savings from expanding the business income tax base in a like fashion would be sensitive to what items were selected for inclusion. A recent CBO inventory of federal programs in support of businesses reveals annual direct federal expenditures of $15 billion, an additional $8 billion in credit supports, and loan guarantees and loan obligations totaling roughly $20 billion each. Tax benefits make up the bulk of federal support, however; accelerated depreciation accounts for $20 billion, reduced capital gains rates for $18 billion, and investment tax credits for $20 billion.

Program Impact. As part of a comprehensive reform of the tax structure, eliminating tax preferences and including all subsidies in taxable income would improve "horizontal" equity among income groups, increasing the degree to which individuals in similar economic circumstances are taxed similarly. Most economists also agree that the allocation of resources among different activities would improve, and national output could rise, with the broadening of the tax base. Including means-tested benefits alone as taxable income would not be equitable, however.

Implementation. Several thorny issues would require resolution before the vast array of federal transfers and expenditures could be totaled and attributed to particular individuals and businesses. Cash valuations would have to be made both of the in-kind benefits the government provides through means-tested programs and of those private employers offer. The Congress has reviewed such issues periodically without arriving at a solution. At present, for example, many fringe benefits are tax free to recipients, and they are coming to account for a growing proportion of overall employee compensation. Because assessing the value of these benefits is so difficult, however, legislation in 1978, 1979, and 1981 has delayed issuance of new IRS regulations concerning the tax treatment of fringe benefits.

Second, explicit tax deductions or exclusions would have to be valued as income to recipients. This would require decision rules regarding what form a tax system without these provisions should take. For example, should it be the current tax structure, but without any of the exemptions, credits, and deductions? Or a system with a comprehensive income base but with lower rates? The "tax expenditure" method used in the budget determines the value of any tax benefits by assuming that the existing tax structure remains intact. This procedure implicitly concerns itself with the marginal effect of changing one provision at a time. Thus, tax expenditure estimates for overlapping tax subsidies cannot be simply summed.

To a degree, the tax code already contains provisions similar in spirit to those recommended by the PPSSCC that would restrict excessive use of tax benefits to reduce tax liability. "Minimum" taxes for individuals and corporations require that each tax filer be assessed some liability, based on a percentage of certain tax preferences claimed. Such rules could serve as a basis for recouping duplicative or excessive benefits on a wider scale.

Another concern regarding implementation of the PPSSCC proposals is the degree of coordination that might be expected among the various agencies administering federal assistance programs. Many of the federally funded means-tested programs, in particular, are run by state or local officials, so administrative responsibilities could not easily be centralized. Thus, while any savings in reduced program costs would be realized primarily at the federal level, the costs of implementation would be borne, at least in part, by state and local governments. Information concerning the administrative costs incurred by the states from the federal taxation of state-administered unemployment compensation suggests that total annual federal costs are well below $10 million. The costs of administering taxation of means-tested benefits on a wider scale might be somewhat greater. According to a 1979 report by the Department of Agriculture on a proposed plan to tax some Food Stamp benefits, the federal government's gain of about $83 million during the first four years of implementation would have been nearly offset by startup costs of about $75 million. State and local initial costs, however, would have approached $60 million. Once fully operational, this plan would have generated federal savings of about $50 million a year, but at the same time, it would have generated about $25 million in additional state and local costs.

Additional Comments. Though the PPSSCC's findings of a need to improve and consolidate many federal subsidy programs are generally consistent with those in earlier GAO reports, the commission's recommendation--as well as estimates of savings from its recommendation--are problematic. The recommendation combines needs-based and insurance programs, presumably to tax individuals who receive a certain level of benefits or to cut benefits in some other manner. This would not improve the efficiency or effectiveness of these programs but instead would result in a major restructuring that might violate the legislative intent underlying the insurance-type programs. The PPSSCC argues that this restructuring is necessary, because many of these programs (especially the means-tested programs) have not been effective in reducing poverty in as much as they serve individuals who have incomes above the poverty level.

In fact, as stated above, the programs included by the PPSSCC in its category of means-tested programs were not designed to reduce poverty. In general, when these programs (with the exception of Food Stamps) were established, the Congress did not relate benefit amounts or eligibility limits for each program to poverty thresholds. For example, Medicaid--the program representing the largest expenditures--was designed to meet otherwise unmet health needs; it does not provide cash to raise participants out of poverty. Some other programs (AFDC, SSI, and veterans' pensions) are intended to serve people who cannot work (for example, the aged, the disabled, and children). The PPSSCC's estimate of a $58.9 billion savings over a three-year period would have to be accomplished, therefore, by major legislative revisions, which would result in changes in current program participants and in the level of benefits received.

References. PPSSCC, Management Office Selected Issues: Federally Subsidized Programs. U.S. Department of Agriculture, Food and Nutrition Service, "Recoupment in the Food Stamp Program," (1979). Daniel H. Weinberg, "Filling the Poverty Gap: Multiple Transfer Program Participation," Mimeo (December 1983). Joseph J. Minarik, "The Yield of a Comprehensive Income Tax," in Joseph Pechman, editor, Comprehensive Income Taxation, the Brookings Institution (1977), p. 285; Joint Committee on Taxation, Analysis of Proposals Relating to Broadening the Base and Lowering the Rates of the Income Tax (September 24, 1982). CBO, Federal Support of U.S. Business (January 1984). CBO, Tax Expenditures: Current Issues and Five-Year Projections for Fiscal Years 1984-1988 (October 1983). GAO, "U.S. Income Security System Needs Leadership, Policy and Effective Management" (February 29, 1980). GAO, "Federal Domestic Food Assistance Programs--A Time for Assessment and Change V" (June 11, 1978).

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INDEX FEDERAL HIGHWAY TAXES TO INFLATION (USER-21)

	Annual Revenue (billions of dollars)					Cumulative Five-Year Addition
	1985	1986	1987	1988	1989	
Addition to CBO Baseline	0	0.1	0.4	0.8	1.1	2.4

PPSSCC Proposal. In passing the Surface Transportation Assistance Act of 1982, the Congress initiated the first significant increase in federal highway taxes since 1959--most importantly, a 5 cent-per-gallon increase in the previous 4 cent federal tax on motor fuel. As a result, total receipts to the Highway Trust Fund rose by about 73 percent to an estimated $11.7 billion for 1984, making available some $10.5 billion for highways and the remaining $1.2 billion for mass transit. The commission proposes a price adjustment mechanism that would increase highway taxes automatically to reflect inflation, so that the purchasing power of the highway program will not be eroded as it has been in the past. The proposal is unclear in many respects, however. For example, it does not state whether or not highway authorizations would rise in line with future tax receipts, nor does it take into account the growth in tax receipts already built into the law.

Budgetary Impact. On the basis of an assumed annual inflation rate of 5 percent, the PPSSCC estimates that indexed highway taxes would produce approximately $600 million in additional trust fund receipts in the first year, over and above the $12 billion that the commission estimates would be raised by current taxes. Over three years, an extra $2.0 billion would be collected. The PPSSCC calculation does not take account of inflation after the first year, however, and thus it understates the proposal's potential revenue gain. Were the same 5 percent annual inflation rate applied annually throughout a three-year period, total additional receipts would roughly double to $3.7 billion.

Assuming that the commission's goal is to maintain the trust fund's current real purchasing power, the added 1985-1987 receipts resulting from the proposal would far overshoot the goal. CBO estimates it could be reached with a revenue increase of $0.5 billion over three years and $2.4 billion over five years. The difference is caused by the commission's not taking account of growth in revenues already expected from existing taxes. Under current law, trust fund revenues are expected to rise for three reasons: some heavy truck taxes are to be phased in, highway activity in general is projected to grow at roughly the same rate as the economy, and the sales tax on new trucks will reflect price changes. As a result, taxes will not have to be increased by the full expected rate of inflation (as assumed by the commission), and no increase at all would be needed until 1986. Since current highway outlays exceed tax receipts, this estimate interprets the PPSSCC proposal as increasing only revenues and not spending. But, if authorizations rose, resulting outlays would cut the savings by about $1.2 billion.

The commission also disregards the fact that the highway authorizations enacted in the 1982 legislation will grow by more than the expected rate of inflation. As a result, increased highway revenues of about $8.5 billion ($6.1 billion more than the commission proposes) would be required over the next five years just to maintain a balance between outlays and receipts.

Program Impact. Few additional administrative problems would arise in adjusting these tax collections, and economic impacts would be minor compared with those of the major tax changes made in 1982. If the current program level is thought appropriate, automatic adjustment of highway taxes would be beneficial. GAO has recommended that the Congress address revising the gasoline tax to be more responsive to highway needs and inflationary trends in highway costs. Indexed taxes, however, could hamper spending reductions at some future date.

Implementation. Adjusting the current highway taxes would require new legislation. At present, four federal highway taxes are in effect, including the 9 cent-per-gallon tax on motor fuel, a 12 percent sales tax on new trucks weighing more than 33,000 pounds and trailers over 26,000 pounds gross weight, a tax on truck tires, and a graduated tax on heavy vehicles weighing more than 33,000 pounds. The Congress could decide to increase all tax rates proportionately, or to raise only individual taxes, such as that on motor fuel. At present, heavy trucks are the only major group of vehicles paying substantially less than its share of federal highway costs.

Timing problems could complicate adjusting the taxes, since the new rates for each fiscal year would have to be based in part on estimates of inflation. The Federal Highway Administration, however, publishes a price index for federal highway construction costs, which would provide sufficient data to maintain a current pricing mechanism.

References. PPSSCC Task Force on User Fees, Report on User Charges, pp. 222-227. GAO, Deteriorating Highways and Lagging Revenues: A Need to Reassess the Federal Highway Programs (CED-81-42, March 5, 1981). CBO, Financial Options for the Highway Trust Fund (December 1982).

LIMIT THE USE OF TAX-EXEMPT REVENUE BONDS FOR PRIVATE PURPOSES (EX-2)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1985	1986	1987	1988	1989	
Addition to CBO Baseline	0.3	1.0	1.9	2.7	3.6	9.5

PPSSCC Proposal. The PPSSCC proposes that the use of tax-exempt revenue bonds for private purposes be limited through various means:

- o Permitting tax exemption only for bonds backed by the full faith and credit of the issuing city, county, or state;
- o Setting ceilings on the volume of tax-exempt bonds that a state or locality can issue; and/or
- o Requiring that projects meet certain financial criteria, such as a specified rate of return, in order to qualify for tax exemption.

These recommendations--which are not mutually exclusive--would affect mortgage bonds for single-family homes and rental housing; industrial revenue bonds, which provide low-interest loans for a wide variety of purposes; bonds for private hospitals; and student loan bonds.

Budgetary Impact. CBO estimates that, if tax exemptions were limited to general obligation bonds as of July 1, 1984, savings over the three-year period from fiscal year 1985 to 1987 would amount to an estimated $3.2 billion. The savings resulting from placing a ceiling on tax-exempt bonds would depend entirely on the level at which it was set. In the absence of more specific information, it is difficult to estimate the savings that would result from the PPSSCC's recommendation that projects financed with tax-exempt bonds be required to meet certain financial criteria.

The PPSSCC estimates that its proposals would result in savings of $5.2 billion over three years. CBO's revenue estimates assume that any legislation that the Congress might pass would affect only new issues of tax-exempt bonds. Revenue losses would continue from bonds outstanding at the time of legislation. The PPSSCC proposals appear not to make the distinction between outstanding bonds and new issues; consequently, the PPSSCC's savings projections are higher than CBO's.

Program Effects. Limits on the use of revenue bonds for private purposes would reduce the supply of tax-exempt bonds and lead to lower interest rates on state and local general obligation bonds.

Depending on how the PPSSCC recommendations are implemented, they could also result in some declines in investment in housing and hospital construction. Their effect on overall investment is less clear; for example, investment in pollution control equipment, which is often financed with tax-exempt bonds, is required by law and presumably would continue. In other instances, activity normally financed with tax-exempt bonds might decline, while investment in plant and equipment not eligible for such financing might increase. Thus, the limits might result in an allocation of capital to more productive uses.

Implementation. Although states and localities have authority to limit the use of revenue bonds, few have done so. Accordingly, implementation of the PPSSCC recommendations would require Congressional action. The House Committee on Ways and Means has drafted legislation setting ceilings on the volume of tax-exempt bonds that a state or locality could issue (H.R. 4170). The same bill would also extend for five years the authority to use tax-exempt state and local mortgage bonds for single-family housing. This authority expired at the end of 1983. The Administration supports the limits set forth in H.R. 4170. These limits, coupled with extension of mortgage bonds, would result in a net revenue gain of close to $0.1 billion over the 1985-1987 period.

Additional Comments. This proposal could largely eliminate bonds for certain activities such as single-family mortgages. GAO estimated that the present value of tax revenue losses due to single-family bonds sold in 1981 and 1982 would be approximately $2.7 billion. GAO also estimated that the issuance of $10 billion of single-family revenue bonds a year could raise the cost of borrowing for traditional public purposes (which is about $40 billion a year) by $160 million per year for each year the traditional debt remains outstanding. GAO also found that higher tax-exempt interest rates in 1982, caused in part by the increased volume of private-purpose bonds in the market, contributed to postponements and cancellations of $1.9 billion in bond sales for traditional public purposes. Lowering overall market volume would, in addition to reducing federal tax losses, contribute to lower tax-exempt interest rates, thereby assisting state and local governments in bringing bonds for traditionally public purposes to the market.

References. PPSSCC, Management Office Selected Issues, vol. XII, Opportunities Beyond PPSSCC, pp. 5-9. CBO, Reducing the Deficit: Spending and Revenue Options (February 1984), pp. 216-218. PPSSCC, Management Office Selected Issues, Volume XII, Opportunities Beyond PPSSCC, pp. 5-9. CBO, Reducing the Deficit: Spending and Revenue Options (February 1983). GAO, The Costs and Benefits of Single-Family Mortgage Revenue Bonds: Preliminary Report (RCED 83-145, April 1983). GAO, Trends and Changes in the Municipal Bond Market as They Relate to Financing State and Local Public Infrastructure (PAD-83-46, September 1983).

INCREASE RAILROAD RETIREMENT TIER 2 PAYROLL CONTRIBUTIONS (BANK-11-1)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1985	1986	1987	1988	1989	
Addition to CBO Baseline	0	0	0	0	0	0

PPSSCC Proposal. Developed before passage of the Railroad Retirement Solvency Act (P.L. 98-76) in August 1983, this proposal is designed to ensure the solvency of the Railroad Retirement trust fund that finances retirement pensions for railroad employees. Specifically, it would raise by 4 percent the payroll contributions that fund Tier 2 benefits--the portion of benefits resembling private-sector pensions. (Tier 1 benefits approximate Social Security.) If adopted before enactment of P.L. 98-76 and split evenly between employing firms and employees, this increase in Tier 2 contributions would have raised employers' rates from 11.75 percent to 13.75 percent of taxable wages ($29,400 in 1985) and employees' rates from 2 percent to 4 percent. As a result, the overall Railroad Retirement System (RRS) tax would have risen to 20.45 percent for employers and 10.7 percent for employees. (An alternative PPSSCC plan would have reduced benefits in an unspecified manner so as to produce an equivalent effect on the RRS trust funds.) Passage of P.L. 98-76 has altered the fiscal prospects of the RRS trust fund significantly, however, putting it on a reasonably sound footing.

Budgetary Impact. The PPSSCC estimates that, once implemented, its proposal would cause revenue increases of about $0.5 billion annually accruing to the RRS trust fund. Current CBO revenue projections take account of law already in effect and, as a result, they include the effects of P.L. 98-76 in estimates of social insurance contributions. The law raises baseline revenues $0.2 billion in 1984, $0.7 billion in 1985, and $1.1 billion in each year during the 1986-1989 period. Thus, CBO attributes no revenue gain to the PPSSCC proposal. GAO has reached a similar conclusion.

Because details about the reductions in benefits proposed by the PPSSCC are not available, CBO has not estimated the resulting savings.

Program Impact. As noted above, P.L. 98-76 resolved the RRS's financial situation by increasing Tier 2 taxes. Relative to prior law, employer tax rates will rise by 1 percent in 1984, 2 percent in 1985, and 3 percent in 1986 and thereafter. Employee rates are to rise by 0.75 percent, 1.5 percent, and 2.25 percent during the same intervals. In addition, the tax treatment of Tier 2 benefits was adjusted to conform with the treatment of private-sector pension benefits, which are taxed when the amounts received exceed employees' previous contributions. Revenues from benefit taxation are earmarked for the RRS account until 1989.

The new law also raised system outlays by restoring Tier 2 benefits, which were scheduled to be automatically cut by 40 percent in October 1983 because of the system's impending financial crisis. Other benefit changes offset a portion of these increases.

Overall, the impact of P.L. 98-76 on the unified budget deficit was to reduce it by $0.4 billion in 1985 but increase it by $0.5 billion in 1986.

Implementation. Enactment of P.L. 98-76 obviates the need to alter railroad retirement benefits or taxes further. Additional changes would require legislative action, however.

Reference. PPSSCC, Report on Boards/Commissions-Banking, pp. 79-83.

IMPROVE FEDERAL TAX ADMINISTRATION (TREAS-1, 3, 7)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1985	1986	1987	1988	1989	
Addition to CBO Baseline	0.3	1.1	2.3	3.8	5.5	13.0

PPSSCC Proposals. According to the PPSSCC, major deficit reductions could be achieved by overhauling aspects of the federal tax administration process. The largest revenue increases would derive from augmenting the Internal Revenue Service's (IRS) staffing for collection of delinquent taxes and examination of tax returns, and from accelerating the disposition of tax cases brought before the U.S. Tax Court. But the goal of halting the growth of backlogged collections with staff levels appropriate to workload has largely been accomplished through IRS staff increases provided by the Congress in 1983 appropriations.

With regard to encouraging tax compliance by examining tax returns, the PPSSCC proposes annual IRS personnel increases of 2,500 for each of the next few years. (The IRS's examinations work force currently averages about 28,500 positions.) The PPSSCC also proposes establishing a new tax board, with associated procedural changes, to settle tax litigation involving sums of less than $10,000. The commission claims that the new mechanism would free tax court resources for the larger, more lucrative cases and thus would accelerate settlements and the receipt of tax revenues.

Budgetary Impact. From all its recommended tax collection measures, the commission estimates potential savings of more than $10 billion over three years; some actions not considered here, however, are incorporated in that estimate. For the two initiatives analyzed, the CBO estimate of savings is roughly $13 billion over five years. About $12.5 billion of this gain would result from increased examinations--specifically, the difference between revenue increases of $14 billion from improved compliance, less $1.5 billion in costs for training and additional personnel. These CBO projections represent an update of the PPSSCC amounts (totaling $2.9 billion over three years) and are derived using the same IRS planning model.

The remaining $0.5 billion net revenue gain would result from creation of the new tax board. The CBO estimate represents only one-eighth the PPSSCC three-year estimate of $4.0 billion. The lower five-year estimate includes $0.18 billion in costs for 61 new small-case judges and for greatly increased

IRS tax litigation resources. These costs offset an estimated revenue gain of \$0.73 billion. Nearly two-thirds of the estimated revenue gain reflects a speed-up of docketed cases resolved before trial; but contrary to PPSSCC estimates, no speed-up is assumed for cases resolved before docketing with the court. (CBO does not find sufficient evidence to evaluate the PPSSCC's claimed revenue gain from the undocketed work load at the IRS.) In addition, CBO estimates exclude interest effects from changes in Treasury borrowing.

Program Impact. Added IRS examination staff would increase the portion of tax returns reviewed, from the current level of about 1.3 percent to 1.8 percent through 1989. A new administrative tax board for small tax cases could allow annual disposition of some 48,700 trial and pretrial cases docketed with the court. At this rate, the current backlog of cases involving sums of \$10,000 or less would disappear in about 12 months. After that, projected new small tax cases would not support the higher number of judges recommended by the PPSSCC. The new board would also free up judges' time for larger cases and thus allow accelerated annual disposal of docketed cases by nearly two-fifths. The PPSSCC estimates suggest an even greater acceleration of these cases along with those not docketed with the U.S. Tax Court. Any estimated effects of expanding the tax court, of course, are subject to considerable uncertainty, because little is known about the effects of recent changes in the tax laws, about factors that affect taxpayers' behavior, or about the effect of one court ruling on the settlement of other cases.

Implementation. Additional staffing increases for the IRS would require action by the Congress, as would establishment of a new tax board authorized to hear cases involving sums of less than \$10,000. Recognizing the declining portion of tax returns examined and the growing tax litigation backlogs, the Congress has recently provided for an increase in examinations and tax court staff. For 1983, examinations staff increased 5 percent, and tax court staff some 15 percent. Despite these increases, the IRS shows a declining number of annual examinations, and the tax court expects a growing backlog. The Congress is already considering legislation to revise the dollar criterion used to determine cases eligible for less formal court procedures (H.R. 4170). More far-reaching changes in tax litigation have not been proposed.

Additional Comments. GAO has recommended that increased staffing for either examinations or collections be accompanied by improved management to ensure the efficient use of additional funds. Among other things, GAO has supported improved information systems and greater coordination between examination and collections. Concerning the proposed new tax board, a forthcoming GAO report identifies various tax-case management improvements--including better case scheduling and monitoring--that could arrest the growth in the court backlog. Other observers believe that increasing the number of judges available to hear large cases would represent a more straightforward approach to accelerating tax settlements without overstaffing for small cases. This approach could also alleviate concern that the more far-reaching PPSSCC proposal would generate additional workload for the government because of increased appeals to the tax court.

References. PPSSCC, Report on the Department of the Treasury, pp. 4-20, 29-34, and 76-85. GAO, With Better Management Information IRS Could Further Improve Its Efforts Against Abusive Tax Shelters (GGD - 83-63, August 1983). GAO, Further Research into Noncompliance Is Needed to Reduce Growing Tax Losses (GGD - 82-34, July 1982). GAO, What IRS Can Do to Collect More Delinquent Taxes (GGD - 82-4, November 1981). GAO, Better Use Can Be Made of Federal Professional Staff (FPCD - 81-14, December 1980). The GAO will soon release a report on administrative improvements that can reduce the growing backlog of U.S. Tax Court cases.

ACCELERATE PAYMENTS OF WITHHELD SOCIAL SECURITY TAXES BY STATE AND LOCAL GOVERNMENTS (ASSET-2-1)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1985	1986	1987	1988	1989	
Addition to CBO Baseline	0.7	*	0.1	0.1	0.1	1.0

* Less than $50 million.

PPSSCC Proposal. The PPSSCC recommends that the Congress could produce a first year's saving of $1.25 billion by accelerating the deposit of Social Security taxes by state and local governments. Under prior law (which formed the basis of the PPSSCC recommendation), state and local governments were allowed to deposit Social Security taxes 30 days after the end of the month in which the wages were paid. Current law now requires state and local governments to deposit withheld Social Security taxes on the 15th of the month for wages paid during the last half of the previous month, and on the last day of the month for wages paid during the first half of the current month. This rule was adopted as part of the Social Security Amendments for 1983 (P.L. 98-21) and became effective January 1, 1984. Thus, the Congress has already enacted about 50 percent of the acceleration called for by the PPSSCC.

In contrast to the rules for state and local governments, large private employers are required to deposit withheld Social Security taxes within three banking days after the end of a period.[1] There are eight periods in each month, defined as ending on the 3rd, 7th, 11th, 15th, 19th, 22nd, 25th, and last days of each month. If state and local governments were treated the same as private employers, most public employee payroll taxes would be

1. A large private employer is one whose accumulated payroll tax liability at the end of a period exceeds $3,000. For private employers whose accumulated liability is less than $3,000 at the end of a period, but more than $500 at the end of the month, deposits must be made by the 15th day of the following month. If an employer has an accrued liability of less than $500 for a full quarter, it may be paid at the end of the following month with the employer's income tax return.

subject to this rule. The PPSSCC proposes that state and local governments be required to remit Social Security taxes at the same frequency as required of private employers. In general, the effect of this proposal would be to reduce the current grace period by 10 to 12 days. (State and local governments are already governed by the same rules as private employers in depositing withheld income taxes.)

Budgetary Impact. CBO estimates that federal revenues would be increased by $0.7 billion in fiscal year 1985 and $1.0 billion over the 1985-1989 period. The amount is lower than the PPSSCC first-year estimate of $1.25 billion (in cash acceleration) because of the action already taken by the Congress. In addition, the CBO estimate shown here excludes the interest earnings of $413 million attributed by the PPSSCC to the proposal.

Program Impact. Treating state and local governments like private employers for purposes of Social Security withholding would result in an acceleration of state deposits. The Treasury's cash acceleration gains would result in an equal cost to state and local governments.

Implementation. In the 1983 Social Security Amendments, the Congress reduced the grace period for state and local governments from 30 days to 15 days. Further Congressional legislation would be necessary to provide for consistent treatment of private employers and state and local governments.

Reference. PPSSCC, Report on Financial Asset Management Task, pp. 31-40.

ACCELERATE DEPOSITS BY IRS SERVICE CENTERS (ASSET-2-2)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1985	1986	1987	1988	1989	
Addition to CBO Baseline	*	*	*	*	*	0.1

* Less than $50 million.

PPSSCC Proposal. According to the PPSSCC, significant revenues can be gained by shortening the time the Internal Revenue Service (IRS) takes to process tax payments at its service centers. The PPSSCC recommends that the work flow be changed in the service centers' Remittance Processing Systems (RPS) so that tax deposits to Treasury accounts can be accelerated by one day. At present, the RPS uses a duplicate entry of coded data and a manual review for errors before payment checks are photographed for microfiche and deposited at a commercial or a Federal Reserve bank. The PPSSCC proposal calls for a restructuring of the work flow so that duplicate data entries are made after checks are deposited; errors would be reconciled at that time. After deposit, verification of entries of coded data could be made from the microfiche copies of checks. By saving one day in the time needed to process and deposit checks, the PPSSCC estimates the Treasury would accelerate its cash flow.

Budgetary Impact. The PPSSCC estimates that the one day saved would generate $664 million in accelerated cash flow in the first fiscal year. This is based on an estimate that an average of $664 million per day is collected in September. The commission assumes that, because September is a peak month for collections (quarterly estimated taxes are due on the 15th), a one-day acceleration could be achieved during this busy period. Speeding up deposits by one day would move receipts from the first business day in October to the last day in September, thereby achieving a gain for the earlier fiscal year.

CBO attributes no increase in annual tax receipts to this proposal. Although September is a peak month for IRS deposits, most of this flow occurs in the days around the 15th; in 1983, 78 percent of collections for the month were deposited between the 13th and the 23rd of the month. The average daily deposit was $595 million (for income and employment taxes not withheld), but the deposit on the 30th was only $79 million, and on the first business day in October was only $77 million. This suggests that the peak period has passed by the end of the month, and that the IRS is back on its standard 24-hour turnaround of check deposits. Thus, a one-day gain is not likely to be achieved at the end of the month. Moreover, even if a day were gained, the cash acceleration would be only about $80 million, instead of the $664 million estimated by the PPSSCC.

Although CBO estimates that no fiscal year cash acceleration would result from this proposal, Treasury borrowing costs could be reduced from cash acceleration within a fiscal year. CBO estimates this interest saving to be $0.1 billion over the 1985-1989 period.

Program Impact. To whatever extent tax payments are processed and deposited more quickly, the Treasury accelerates its cash flow. Taxpayers are affected in an opposite manner; their taxes will be withdrawn from their accounts sooner and they will lose the use of those funds by one day. Although the effect on individual taxpayers is likely to be small, in the aggregate a sizable cash acceleration to the Treasury might be achieved.

Implementation. The PPSSCC recommends that the IRS undertake a pilot study at a service center to test whether the error reconciliation step can be performed after depositing checks rather than before. If this test is successful, the IRS could undertake the reorganization of its work flow so that the one-day speed-up could be achieved. The IRS is already planning such a test at one of its service centers this year.

Reference. PPSSCC, Report on Financial Asset Management Task Force, pp. 31-40.

ACCELERATE DEPOSITS OF FEDERAL RECEIPTS (ASSET-2-3, 3-1, 3-5)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1985	1986	1987	1988	1989	
Addition to CBO Baseline	The budgetary impact of the PPSSCC recommendations cannot be estimated with available information.					

PPSSCC Proposal. The PPSSCC recommends that the Treasury accelerate the deposit of federal receipts by using the Treasury Federal Communications System (TFCS), "automatic account withdrawals," and lockboxes. These systems operate as follows:

- The TFCS enables the federal government to effect immediate fund withdrawals and deposits by electronic transfer. By requiring federal payments to be remitted by electronic transfer, agency check processing and mail time can be virtually eliminated. As each electronic transfer costs about $10 to $15, they can be justified only for payments over about $10,000. At present, about $94 billion in federal receipts are collected through the TFCS annually.

- Automatic account withdrawal allows the Treasury to collect payments from individuals or businesses by directly accessing their bank accounts through the Automated Clearing House System. This system enables the Treasury to withdraw payments from bank accounts (and deposit them in Treasury accounts) on their exact due dates. The Treasury now uses this system to pay federal employees through the "direct deposit" system. Although not now used by the Treasury for collections, automatic account withdrawals can be used for regularly recurring installment payments, such as loan repayments. (The Internal Revenue Service is planning to use this system to collect installment payments on tax delinquencies starting in 1985.) The system is not only faster than mailing and processing paper checks, it is also cheaper.

- Expanding the use of lockboxes can speed the process of depositing federal receipts. A lockbox system entails selecting a rental box in a central post office with a contract with a commercial bank to service the box. Payments are sent to the lockbox--not to the recipient agency--and are immediately processed and deposited by the bank into a government account. The paperwork accompanying such payments is then sent on to the agency by the bank. The advantages of this system are that the most efficient post office can be selected, and that the payments can be deposited faster. This system is now used to collect about $1 billion in federal receipts annually.

In 1983, the federal government collected $857 billion in tax and other receipts. Of this amount, roughly $529 billion was collected through the federal tax deposit system and $94 billion through TFCS; $31 billion was attributable to intragovernmental transactions. Thus, about $200 billion in receipts (about $145 billion in tax and $55 billion in other receipts) from the public were not paid through an accelerated collection method. This amount is basically the maximum level of receipts that might be subject to acceleration under the above proposals.

Budgetary Impact. The PPSSCC estimates that these proposals, if fully implemented, would raise $9.7 billion over three years: $0.7 billion from greater use of TFCS; $4.9 billion from lockboxes; and $4.1 billion from automatic account withdrawals. In addition, the PPSSCC estimates that $2.6 billion in interest savings would be achieved over three years from these cash collection procedures.

The commission bases its $0.7 billion savings from TFCS on an estimate that $40 billion in receipts can be deposited six days earlier because of shortened mail and processing time. As the Treasury does not have statistics on the number or value of receipts greater than $10,000 apiece and not currently paid through TFCS, there is no basis to evaluate the accuracy of the $40 billion estimate, or the associated savings.

CBO analysis suggests that the PPSSCC savings estimate for lockboxes ($4.9 billion) is probably too high. The estimate is based on $140 billion in receipts' being accelerated by 12.6 days. As a significant share of these receipts are tax payments, there may be objections to the use of lockboxes for reasons of confidentiality--that is, taxpayers might object to commercial banks' having access to their tax returns. Thus, the potential receipts that could be collected by lockboxes may be significantly less. If only other receipts ($55 billion) were collected through lockboxes, the revenue gain would be lowered to about $1.9 billion (using the PPSSCC methodology).

The $4.1 billion savings estimate from automatic account withdrawals is split into two parts: $0.9 billion for cash acceleration on loan repayments, and $3.1 billion from reduced loan delinquencies. The cash acceleration saving results from an assumed 15.4-day savings in mail and processing time on loan repayments of $21.6 billion ($21.6 billion is 60 percent of an estimated $36 billion in annual loan repayments). But the PPSSCC estimate of $36 billion in total annual loan repayments is overstated, because it counts the Federal Financing Bank's purchases of agency loans as repayments. In fiscal year 1983, loan repayments from the public were only about $25 billion. In addition, the 15.4-day savings in time is probably too high, as agencies have moved to speed up their deposits in recent years.

The estimate of savings from reduced loan delinquencies is based on the assumption that 25 percent of delinquent loans will be collected over three years. (About $10 billion in federal loans are delinquent.) This assumption may be overoptimistic, as about 90 percent of loan delinquencies are older than 90 days, and about 70 percent have been delinquent for more than one year. This suggests that most delinquencies are not simply the result of oversight or neglect; therefore, the associated savings are probably overstated.

Two other concerns related to these estimates are that they involve a significant transition period before they can be fully implemented, and that the proposals overlap one another. For example, some loan repayments may be counted in with the lockbox savings as well as in with the savings for automatic account withdrawal. These reasons suggest that the initial savings from the proposals would likely be much lower than the commission's long-run estimates, and that the sum of the individual savings overstates the total savings available from an "optimal" mix of all three collection methods. On the other hand, these collection methods could result in significant long-term savings in administrative costs. The proposed methods are generally more cost-effective (from a processing standpoint) than the current use of agency personnel. In fact, the administrative savings may be larger than any revenue gain in cash acceleration or interest in the long run.

Program Impact. The PPSSCC proposals would accelerate the government's cash flow. They would also reduce the time payers have use of their funds--that is, withdrawals from their bank accounts would occur sooner than at present. Although these proposals would not alter any statutory or contractual payment-due dates, they would effectively move up the date by which payment transactions are completed.

Use of the automatic account withdrawal system might also reduce the amount of loan delinquencies that result from oversight or neglect. The PPSSCC estimates that loan delinquencies might be reduced by 25 percent because loans are serviced on an immediate basis.

Implementation. The Treasury could speed the adoption of these systems by issuing appropriate regulations. In general, Congressional action would not be necessary to adopt any of these initiatives. The Treasury already encourages the use of TFCS and lockbox systems, and greater use of these systems and automatic account withdrawal can be expected in the future. To the extent that agencies do not participate in these programs, further regulatory action may be necessary.

Additional Comments. GAO believes that three considerations should be made before greatly expanding lockbox operations. First, procedures need to be developed for ensuring that lockbox operations are cost effective. The PPSSCC cost estimate was based on one example in California, and the benefit-cost ratio may not be the same in all areas. Second, adequate controls are not in place to ensure that the banks operating the lockboxes transfer all receipts when required. Without such controls, the Treasury does not have sufficient assurance that the funds are accelerated as desired. Finally, it would have to be determined whether the Treasury should operate the lockboxes rather than banks. This alternative, which has not been adequately examined, would eliminate the reliance on banks to transfer funds promptly and to provide greater control at a possibly lower overall cost to the government. In addition, with regard to the expanded use of the TFCS collection process, GAO believes that greater control is needed to ensure that the depositories transfer the funds promptly once the depositor authorizes payment. Bank delays in transferring the funds would reduce the savings attributable to the TFCS.

Reference. PPSSCC, Task Force Report on Financial Asset Management, pp. 31-54.

EXTEND FEDERAL TAX DEPOSIT SYSTEM TO INDIVIDUAL ESTIMATED TAX PAYMENTS (ASSET-3-2)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1985	1986	1987	1988	1989	
Addition to CBO Baseline	0.1	0.1	0.1	0.1	0.1	0.3

PPSSCC Proposal. Under current law, individual taxpayers with self-employment income or other taxable income (such as interest or dividends) are required to pay estimated taxes on a quarterly basis. By April 15 of the following year, taxpayers are required to cover any difference between their estimated taxes and their actual liability for the year. These payments are mailed to an Internal Revenue Service (IRS) service center and processed at that point. In 1982, the IRS issued proposed regulations (see 47 Fed. Reg. 31889) that would require the quarterly payments to be deposited with a Federal Reserve bank or other depository institution authorized to receive federal taxes. This form of tax payment is referred to as a Federal Tax Deposit (FTD) and is the method used for deposit of most taxes, such as withheld income or Social Security taxes. The regulations did not, however, require taxpayers to use the FTD method of payment for the reconciliation payment due by April 15 of the following year. (In general, quarterly estimated taxes are required to cover only 80 percent of a taxpayer's annual liability--the remaining 20 percent can be remitted by April 15 of the following year.)

The PPSSCC proposal recommends that the IRS require taxpayers who pay quarterly estimated taxes also to use the FTD system to make their April 15 reconciliation payments. This would involve little additional effort as it would only entail the inclusion of an extra FTD form in each individual's tax packet. After the PPSSCC's analysis, however, the IRS withdrew the regulations requiring FTD deposits for the quarterly estimated tax deposits. Thus, the regulations upon which the PPSSCC based its recommendations are no longer in effect. The PPSSCC favors the reissuance of such regulations, although this is not a formal recommendation. For the purposes of this analysis, the PPSSCC proposal will be assumed to include the effects of the reissuance of Treasury regulations requiring FTD deposit of quarterly estimated taxes, as well as the use of FTD deposits for reconciliation payments.

Budgetary Impact. Although the PPSSCC proposal would accelerate the Treasury's cash flow, it would not increase fiscal year receipts. Because none of the estimated tax payment dates overlaps the end of a fiscal year, CBO estimates that there would be no change in tax receipts. (The due dates for estimated tax payments are April 15, June 15, September 15, and January 15 of the following year.) CBO's savings estimate for this proposal is $0.1 billion annually--$0.3 billion over the 1985-1989 period--and reflects reduced Treasury borrowing costs from the acceleration of receipts within each fiscal year. The PPSSCC estimates that just the use of FTD for final reconciliation would generate interest savings of $47 million in the first year and $156 million over a three-year period; no increased revenues are attributed to cash acceleration for any fiscal year, however.

Program Impact. The use of the FTD system to collect estimated tax deposits would reduce the IRS processing and mail time needed to deposit those payments. Taxpayers would have their payments cleared more rapidly as withdrawals from accounts would occur sooner. In 1983, about 10 million taxpayers paid estimated taxes in the amount of $46 billion. As FTD deposits would speed up deposits by five to seven days, these taxpayers would essentially be required to pay their taxes sooner.

Implementation. The IRS would have to issue regulations requiring the payment of quarterly estimated taxes by FTD, such as those originally issued in 1982. In addition, the regulations would have to require that April 15 reconciliation payments be made by FTD.

Reference. PPSSCC, Report on Financial Asset Management, pp. 41-54.

ACCELERATE COLLECTION OF ALCOHOL AND TOBACCO TAXES (ASSET-3-3)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1985	1986	1987	1988	1989	
Addition to CBO Baseline	0.9	-0.2	*	*	*	0.8

* Less than $50 million.

PPSSCC Proposal. In general, producers of alcohol and tobacco products are currently required to send in (remit) excise taxes on a semi-monthly basis. Taxes related to product shipments during the first half of a month are due by the end of that month; taxes for the second half of a month are due by the 15th of the following month. In addition, federal regulations require large alcohol and tobacco firms (companies with an annual excise tax liability of more than $5 million) to pay their taxes by electronic funds transfer (EFT). (An EFT payment results in an immediate transfer of funds from the taxpayer's bank account to a government account, thereby shortening mail and processing time from what would otherwise total about five days.) More than 90 percent of the aggregate alcohol and tobacco tax liability is covered by the regulations for EFT tax payment.

The Congress has enacted certain exceptions to the above rules for excise tax payments. In the Trade Agreements Act of 1979 (P.L. 96-39), the Congress extended the payment due date for distilled spirits producers by 15 days. Distilled spirits taxes are now due one month after a tax period has ended (each month is split into two tax periods defined by the 1st to the 15th, and the 16th to the end of the month). For example, taxes for the first half of a month are not due until the 15th of the following month, instead of at the end of the current month.

In the Technical Corrections Act of 1982 (P.L. 97-448), tobacco product manufacturers were allowed an extra ten-day grace period for payment of taxes. Taxes for the first half of a month are now due by the 10th day of the following month.

The Congress has also enacted legislation--H.R. 4139, as referenced by the Continuing Resolution, 1984 (P.L. 98-151)--to prohibit the Treasury from implementing the regulations related to EFT payments of excise taxes. The prohibition contained in H.R. 4139 also prevents the collection of excise taxes through the use of lockboxes (see the item "Accelerate Deposits of Federal Receipts"). Thus, alcohol and tobacco excise taxpayers are effectively allowed to remit their payments by mail, even though regulations require EFT payment.

The PPSSCC proposal for accelerating alcohol and tobacco tax collections involves the elimination of all deferrals beyond the end of a tax period, as well as enforcement of the regulations requiring EFT payment of taxes. Thus, most alcohol and tobacco producers would be required to pay their taxes by EFT immediately upon the end of a tax period.

Budgetary Impact. CBO estimates that this proposal would raise $0.9 billion in 1985 and $0.8 billion over the 1985-1989 period. This saving is attributable to the cash acceleration received by the Treasury. The total three-year savings estimated by the PPSSCC is $1.2 billion. The PPSSCC estimate of the first-year savings from cash acceleration is also about $0.9 billion. The CBO overall estimate, however, excludes interest earnings of $294 million included by the PPSSCC for the proposal.

Program Impact. The PPSSCC proposals would reduce the grace periods allowed distillers by 30 days; tobacco manufacturers by 25 days; breweries by 15 days; and wine cellars by 15 days. As taxes would be due immediately at the end of each semi-monthly period, producers would no longer be able to make use of the funds dedicated to tax payments between the time a tax liability is determined and when it is paid.

The producers affected by these proposals object to the shortening of the grace period, either through elimination of deferrals or implementation of EFT collection. Their basic argument against the acceleration is that there is a relatively long lag between the time shipments are made by producers and the time payments are made by purchasers. According to the Distilled Spirits Council of the United States, for example, the average age of receivables for distillers is about 75 days--that is, it takes distillers about 75 days to receive payment for shipments. Making distillers pay their taxes within an average of seven or eight days after shipment would require the companies to finance their tax payments over the 65-70 days until they received payment. This cost, according to producers, would be an excess burden on their operations. On the other hand, distillers could require more immediate payment for the goods they ship. It is not clear why the Treasury should assist producers in extending trade credit to their customers.

Implementation. To accelerate the collection of alcohol and tobacco taxes, the Treasury would have to issue regulations eliminating the standard

15-day grace period between the time a tax period ends and the time payment is due. Also, the Congress would have to enact legislation repealing the special extensions allowed distilled spirits and tobacco products producers. To enforce the regulations requiring EFT payment of taxes, the current appropriations ban on the Treasury would have to be lifted. This would not require a change in law; the current restrictions expire automatically (unless renewed) at the end of fiscal year 1984.

Reference. PPSSCC, Report on Financial Asset Management, pp. 41-54.

ACCELERATE COLLECTION OF CUSTOMS DUTIES (ASSET-3-4)

	Annual Added Revenues (billions of dollars)					Cumulative Five-Year Addition
	1985	1986	1987	1988	1989	
Addition to CBO Baseline	0.3	*	*	*	*	0.4

* Less than $50 million.

PPSSCC Proposal. Import brokers are generally required to pay customs duties within ten business days after the goods have been released by the Customs Service. This system allows importers to take immediate possession of their goods, but not remit the associated duties until about two weeks later. GAO has estimated that in 1976 the average length of time between release of imported goods and payment of duties was 12.4 days.

The PPSSCC recommends that the ten-day deferral be eliminated, thereby requiring duties to be paid upon release of imported goods. This could be achieved through the use of revolving accounts with brokers; upon the importation of goods, the Customs Service could immediately withdraw the estimated duties from a broker's account. An alternative to this immediate payment system would be the assessment of interest on outstanding duties, starting at the time goods are released. Brokers would be allowed the same grace period as now, but would be assessed interest during the interim. Both these options would eliminate most of the profit from deferring the payment of duties once goods are released.

Budgetary Impact. CBO estimates that the PPSSCC proposal would raise $0.3 billion in 1985 and $0.4 billion over the 1985-1989 period. The PPSSCC first-year savings estimate from cash acceleration is $344 million and is about the same as the CBO estimate. The total three-year saving estimated by the PPSSCC is $458 million, including $114 million in interest savings. The overall CBO estimate shown here is lower because it excludes the interest earnings estimated by the PPSSCC for the proposal.

Program Impact. Eliminating the deferral period for customs duties would allow the Treasury to accelerate its cash flow. Brokers would be affected in that they would no longer be allowed to defer payment of duties. To the extent that brokers are now able to receive goods (and assess importers the associated duties), they would no longer be able to earn interest by deferring duty payments. From a financial standpoint, the elimination of the deferral period or the assessment of interest would have the same effect on the government's budget.

Implementation. In order to establish revolving accounts, and eliminate the ten-day deferral, the Customs Service would have to issue regulations. The alternative of charging interest on deferred duties would also require regulations outlining the assessment system. In the past, however, the Congress has objected to these types of proposals. In the fiscal year 1983 Customs Service authorization (International Trade Authorizations, P.L. 97-456), the Congress restricted the Service from reducing the ten-day deferral period. Although this restriction is not now in effect, the House has recently expressed its objections to both reductions in the deferral period and interest charges (see H.R. 2602 and House Report 98-105).

Additional Comments. GAO concurs with the PPSSCC proposal and recommends that the Treasury either reduce the deferrals allowed importers or collect interest on the deferred duties.

References. PPSSCC, Report on Financial Asset Management, pp. 41-54. GAO, Import Duties and Taxes: Improved Collection, Accounting, and Cash Managment Needed (FGMSD-78-50, August 21, 1978).

APPENDIXES

APPENDIX A. COMPUTERIZED INDEX OF THE GRACE COMMISSION RECOMMENDATIONS

The Congressional Budget Office (CBO) has established a computerized data base obtained from the President's Private Sector Survey on Cost Control (PPSSCC) that provides summary information on each of their recommendations for achieving budgetary savings. This data base allows CBO to generate lists of PPSSCC recommendations sorted in a variety of categories, which can serve as useful indexes to the Grace Commission reports.

The computer data base includes a brief narrative description of each recommendation as well as the dollar savings that PPSSCC estimated could be achieved during the first three years of implementation. Each recommendation was also coded by the Grace Commission for a number of different items, including:

1. The PPSSCC task force report that makes the recommendation.

2. What action is necessary to implement the recommendation (administrative action, Congressional action, or Presidential action).

3. The budget function category that would be affected (for example, national defense, energy, transportation).

4. The House and Senate authorizing committees that would have jurisdiction over the programs affected by the PPSSCC recommendations (added by CBO).

5. The House and Senate Appropriations subcommittees and other "direct spending" committees that provide the funds for the spending programs affected by the recommendations (added by CBO).

6. The federal agencies and bureaus that administer the affected programs.

The PPSSCC recommendations are grouped by issue categories in the task force reports. These issue groupings are also contained in the computerized data base, so that lists of issue areas can be produced as well as lists of individual recommendations. The data base contains 2,426 separate recommendations grouped into 765 different issue categories.

PPSSCC Reports

The PPSSCC recommendations are contained in 47 separate reports. Thirty-six of the reports were prepared by separate PPSSCC task forces. Twenty-two of the 36 task forces were assigned to study specific departments and agencies, and the other 14 studied functions cutting across agency lines, such as personnel, data processing, and procurement. In addition, the PPSSCC Management Office prepared 11 reports on selected issues.

Table A-1 provides a list of 46 separate PPSSCC reports as well as the task force numbers and PPSSCC task-force-issue codes that are contained in the computer data base. One PPSSCC management office report on Anomalies in the Federal Work Environment is not included in the computer data base. The table also gives a count of the number of issues and recommendations for each report that is contained in the data base.

The computer data base includes PPSSCC estimates of potential budgetary savings for all reports except three. The three PPSSCC reports that do not have budget savings associated with the recommendations are:

Task Force No.	PPSSCC Report
14	Federal Management Systems
41	Financial Management in the Federal Government
50	Information Gap in the Federal Government

Because of the overlapping nature of the PPSSCC reports, it is important to note that identical or similar recommendations may be contained in two or more reports. Thus, there are several instances of double counting of the potential budgetary savings in the PPSSCC reports and in the computer data base. The PPSSCC has given its estimates of the extent of this duplication in its report to the President, and its estimates of duplicated savings are contained in the computer data base in task force number 40 data fields.

TABLE A-1. PPSSCC REPORTS

Task Force No.	PPSSCC Reports	PPSSCC Issue Code	No. of Issues	No. of Rec's.
TASK FORCE REPORTS				
1	Agriculture	AG	59	154
2	Air Force	USAF	22	50
3	Army	ARMY	21	78
4	Automated Data/Processing/ Office Automation	ADP	18	58
5	Boards/Commissions-Banking	BANK	41	84
6	Boards/Commissions-Business Related	BUS	96	289
7	Commerce	COMM	12	29
8	Defense-Office of Secretary	OSD	40	73
9	Education	EDUC	9	60
10	Energy (including Federal Energy Regulatory Commission and Nuclear Regulatory Commission)	ENERGY	21	82
11	Environmental Protection Agency/ Small Business Administration/ Federal Emergency Management Agency	EPA, or SBA, or FEMA	28	78
12	Federal Construction Management	CONST	23	23
13	Federal Feeding	FEED	6	15
14	Federal Management Systems	FMS	10	35
15	Financial Asset Management	ASSET	35	90
16	Health & Human Services-Department Management/Human Development Services/ACTION	HHSMGT	8	117
17	Health & Human Services-Public Health Service/Health Care Financing Administration	HEALTH, or PHS	20	71
18	Health & Human Services-Social Services Administration	SSA	10	56
19	Federal Hospital Management	HOSP	13	60
20	Housing & Urban Development	HUD	10	51
21	Interior	INT	9	27
22	Justice	JUST	10	37
23	Labor	LABOR	14	49
24	Low Income Standards and Benefits	LISAB	9	24
25	Navy	NAVY	16	69

(continued)

TABLE A-1. PPSSCC REPORTS (Continued)

Task Force No.	PPSSCC Reports	PPSSCC Issue Code	No. of Issues	No. of Rec's.
TASK FORCE REPORTS (continued)				
26	Personnel Management	PER	18	97
27	Procurement/Contracts/Inventory Management	PROC	22	57
28	Real Property Management	PROP	10	52
29	Research and Development	R&D	8	26
30	Land, Facilities and Personal Property	LAND	3	9
31	State/AID/USIA	STATE	10	31
32	Transportation	TRANS	22	69
33	Treasury	TREAS	23	63
34	User Charges	USER	22	57
35	Veterans Administration	VETS	8	24
36	Privatization	PRIV	9	22
MANAGEMENT OFFICE REPORTS				
37	Publishing, Printing, Reproduction and Audiovisual Activities	PPAV	7	29
38	Travel and Traffic Management	TTM	4	11
39	Wage Setting Laws: Impact on the Federal Government	WAGE	3	13
41	Financial Management in the Federal Government	FINANC	4	13
43	Federal Retirement Systems	RETIRE	9	27
46	Federally Subsidized Programs	SUBS	1	4
47	Opportunities Beyond PPSSCC	EX	11	12
48	The Cost of Congressional Enroachment	CONG	5	32
49	Federal Health Care Costs	MEDIC	1	5
50	Information Gap in the Federal Government	INFO	5	14
PPSSCC DUPLICATIONS				
40	Duplicated Savings	DUP	62	65

PPSSCC Savings Estimates

The PPSSCC dollar estimates of potential savings to the federal government of its various recommendations are in terms of three-year projections based on when first-, second-, and third year partial or full implementation will occur, and not in terms of specific fiscal years. The PPSSCC characterizes its estimates as being of a "planning" nature and not a "budget" quality. Therefore, the PPSSCC cautions users of its reports and its computer data base against using these dollar estimates in making specific budgetary proposals.

The PPSSCC believes that the majority of its recommendations can be fully substantiated. It notes, however, that the recommendations are not all based on the same level of research analysis and substantiation. Accordingly, the PPSSCC has divided its recommendations into the following three categories of "supportability."

- Category I -- Fully substantiated and defensible. Recommendations in this category are, in the opinion of the PPSSCC task force, convincing and deserving of prompt implementation.
- Category II -- Substantially documented and supportable. Recommendations in this category may not be fully rationalized or documented in the report, but all indications to the task force point to the desirability and defensibility of proceeding with their implementation.
- Category III -- Potentially justifiable and supportable. Recommendations in this category are not regarded by the PPSSCC as fully supported in the report, because of time, personnel resources, and other constraints, but are deemed worthy of further analysis to determine the full extent of their merit.

The various PPSSCC recommendations in the computer data base are coded for these "supportability" categories (I, II, or III). It should be noted that the PPSSCC report to the President uses dollar savings estimates only for those recommendations assigned to categories I and II.

The PPSSCC savings estimates in the computer data base also are divided into four types of savings:

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- Spending reductions. These are denoted by the descripter "cash-save" or "cash" and refer to potential savings in budget outlays.

- Revenue enhancements. These are denoted by the descripter "rev-save" or "rev" and refer to potential increased government receipts, including offsetting receipts recorded on the spending side of the federal budget.

- Interest savings. These are denoted by the descripter "interest" or "int" and refer to potential reduced interest costs as the result of lower budget deficits or higher interest-bearing cash balances.

- Cash-flow savings. These are denoted by the descripter "cash-flow" or "flow" and refer to one-time potential savings by accelerating receipt collections or delaying cash outlays.

In calculating three-year potential savings, the Grace Commission excludes the fourth type of savings--cash-flow savings. However, in estimating the possible budgetary impact of the PPSSCC recommendations for specific fiscal years, possible cash flow effects are important. Also, CBO usually does not estimate possible interest savings for individual proposals in budget plans, although it does estimate such savings for the aggregate effects of a combination of budget proposals.

Implementation Authority

The PPSSCC has divided its recommendations according to the type of action that it believes is necessary to achieve implementation. It specifies three types of action:

- Administrative action (A). Implementation can be achieved through agency actions.

- Congressional action (C). Implementation requires Congressional approval or a change in law.

- Presidential action (P). Implementation requires some kind of Presidential directive or executive order.

Each recommendation in the PPSSCC computer data base has been coded by the Grace Commission for implementation authority (A, C, or P). Each issue area also has been coded for implementation authority, based on what authority is judged necessary for achieving the largest part of the savings estimates.

Budget Functions

The Grace Commission coded its recommendations that would affect the spending side of the federal budget according to the budget functions used by the President's budget for fiscal year 1984. These budget functions and their numeric codes are shown in Table A-2. PPSSCC recommendations that cut across budget functions, such as personnel costs, are put into a multifunction category, as are proposals that would affect revenues.

CBO Additions To The Data Base

Congressional Committees. The CBO has added House and Senate authorizing and spending committee codes to each of the PPSSCC recommendations. The "authorizing committee" is that committee that has sole or shared legislative/oversight jurisdiction over the program or activity that

TABLE A-2. BUDGET FUNCTIONS

Numeric Code	Budget Function	No. of Issues	No. of Rec's.
050	National Defense	128	357
150	International Affairs	20	56
250	General Science, Space and Technology	2	3
270	Energy	28	123
300	Natural Resources and Environment	50	146
350	Agriculture	32	79
370	Commerce and Housing Credit	97	290
400	Transportation	44	104
450	Community and Regional Development	16	40
500	Education, Training, Employment and Social Services	20	117
550	Health	37	136
600	Income Security	43	212
700	Veterans Benefits and Services	14	51
750	Administration of Justice	15	58
800	General Government	42	132
850	General Purpose Fiscal Assistance	3	7
999	Multifunction Proposals or Revenues	174	515
	Total	765	2,426

would be affected by the recommendation. The "spending committee" is the Congressional committee in each House that has jurisdiction over the actual expenditure of funds for the program or activity affected by the PPSSCC recommendation. In many instances, the spending committees is the Appropriations Committee. In these cases, the CBO has coded the recommendations by appropriation subcommittees. In other instances, such as for most entitlement programs, the spending committee is the authorizing committee because the spending policies can only be altered through changes in law.

Determination of committee jurisdiction has been based on the rules of each House or historical jurisdiction over laws that govern the program or activity involved in the PPSSCC recommendation. In several instances, the PPSSCC recommendations could not be assigned to a specific standing committee or appropriations subcommittee. In these instances, CBO has assigned the issue or recommendation to the Appropriations Committee in general, or to "multiple authorizing committees." Table A-3 provides a list of Congressional committees and the codes CBO used in assigning committee jurisdiction to the PPSSCC recommendations.

CBO-GAO Analysis. Those PPSSCC issues and recommendations that are reviewed by CBO and GAO in their joint report to the Budget Committees are identified in the computer data base by an asterisk affixed to the PPSSCC issue and recommendation code.

CBO Computer Reports

To facilitate requests from Congressional committees, Members, or staff, the CBO has developed a number of standard computer reports from the PPSSCC computer data base.

These reports show recommendations grouped by issue and codes for implementation authority, supportability, budget function, and House and Senate authorizing and spending committees. Recommendations reviewed by CBO and GAO are indicated by an asterisk. Projected savings as estimated by the Grace Commission are shown by type for each year of implementaion, and are totaled.

Summary reports show total savings by type for each summary category, as well as by category, and grand totals. Duplicated savings are netted out. Different reports can be produced by varying the sort sequence and selection criteria. All detailed reports can be restricted to any combination of implementation authority and supportability codes. The standard reports are as follows:

TABLE A-3. CONGRESSIONAL COMMITTEES

CBO Code	Congressional Committee or Appropriations Subcommittee	No. of Issues	No. of Rec's.
	AUTHORIZING COMMITTEES - HOUSE OF REPRESENTATIVES		
20	Agriculture	86	209
22	Armed Services	139	379
24	Banking, Finance and Urban Affairs	56	159
30	Education and Labor	46	252
40	Energy and Commerce	103	416
31	Foreign Affairs	14	42
32	Government Operations	92	270
36	Interior and Insular Affairs	26	61
42	Judiciary	16	44
44	Merchant Marine and Fisheries	31	61
46	Post Office and Civil Service	77	238
47	Public Works and Transportation	56	156
52	Science and Technology	19	41
54	Small Business	18	42
56	Veterans Affairs	19	64
58	Ways and Means	81	224
33	Multiple Committees (Grace Report)	82	95
	AUTHORIZING COMMITTEES - U.S. SENATE		
64	Agriculture, Nutrition, and Forestry	84	208
66	Armed Services	139	380
68	Banking, Housing and Urban Affairs	62	181
72	Commerce, Science, and Transportation	72	199
74	Energy and Natural Resources	40	124
76	Environment and Public Works	62	164
78	Finance	88	244
80	Foreign Relations	14	42
82	Governmental Affairs	166	516
86	Judiciary	16	44
87	Labor and Human Resources	71	325
94	Small Business	18	42
92	Temporary Select Committee on Indian Affairs	5	14
90	Veterans Affairs	19	64
96	Multiple Committees (Grace Report)	81	114

(continued)

TABLE A-3. CONGRESSIONAL COMMITTEES (Continued)

CBO Code	Congressional Committee or Appropriations Subcommittee	No. of Issues	No. of Rec's.
APPROPRIATIONS COMMITTEES			
AP	Full Committee	176	368
	Subcommittees		
AR	Agriculture	63	151
CJ	Commerce, Justice, State, and the Judiciary and Related Agencies	63	192
DE	Defense	134	361
EW	Energy and Water Development	34	120
FA	Foreign Operations	15	43
IH	HUD-Independent Agencies	67	196
IN	Interior	42	105
LA	Labor and Health and Human Services and Education	80	391
LB	Legislative Branch	2	3
MC	Military Construction	4	9
TR	Transportation	40	87
TY	Treasury-Postal Service	112	298

Task Force Reports

1. Detailed report in sequence by PPSSCC task force. Subtotals by task force.

2. Same as (1) but without the House and Senate Committee codes.

3. Detailed report showing only the issues and recommendations that were reviewed by CBO and GAO.

4. Summary report.

Budget Function Reports

1. Detailed report in sequence by budget function with subtotals. Duplicated savings, which are not assigned to a specific function, appear at the end of the report.

2. Summary report.

Committee Reports

1. Detailed reports in sequence by:
   a. House Spending Committees
   b. Senate Spending Committees
   c. House Authorizing Committees
   d. Senate Authorizing Committees

   If jurisdiction is shared with another committee, the title of that other committee is also shown. The total savings for an issue are shown, rather than the sum of the recommendations under the subject committee, to point out whether the committee is responsible for all or only a part of that issue's savings.

2. Detailed report for any one committee.

3. Summary reports for each committee show the amount of savings by type broken down by implementation authority, and as a percentage of the total survey savings.

Agency Bureau Reports

1. Detailed report in sequence by federal agency and bureau, with subtotals. Duplicated savings are included in the "multi-agency distribution."

2. Summary report.

Implementation Authority Reports

1. Any detailed report, regardless of sort sequence, can be limited to one or two of the implementation authority types.

2. Summary of the total survey savings broken down by implementation authority.

Sample pages from several computer reports are shown on the following pages. Requests for computer lists of the PPSSCC recommendations should be addressed to the CBO Budget Analysis Division (226-2835 or 226-2812).

PRESIDENTS PRIVATE SECTOR SURVEY ON COST CONTROL
SUMMARY OF RECOMMENDED SAVINGS BY TASK FORCE

TASK	TASK FORCE TITLE	CASH-SAVE	REV-SAVE	CASH-FLOW	INTEREST	TOTAL
1	AGRICULTURE	10,989.60	616.20	6,139.70	1,394.80	19,140.30
2	AIR FORCE	27,603.70	0.00	0.00	0.00	27,603.70
3	ARMY	13,400.30	0.00	0.00	0.00	13,400.30
4	AUTOMATED DATA PROCESSING/OFFICE AUTOMATION	29,431.70	102.80	844.30	0.00	30,378.80
5	BOARDS & COMMISSIONS - BANKING	1,465.80	7,782.00	554.30	150.80	9,952.90
6	BOARDS & COMMISSIONS - BUSINESS	3,054.90	929.00	33.50	8.00	4,025.40
7	COMMERCE	262.00	471.00	15.00	3.30	751.30
8	DEFENSE - OFFICE OF THE SECRETARY	44,434.90	248.20	0.00	73.50	44,756.60
9	EDUCATION	1,579.70	0.00	5,841.00	1,248.10	8,668.80
10	ENERGY/FEDERAL ENERGY REG COMMISS/NUCLEAR R	2,776.30	1,290.90	89.40	18.60	4,175.20
11	ENVIRONMENTAL PROTECTION/SMALL BUSINESS/FED	1,662.30	199.30	315.00	0.00	2,176.60
12	FEDERAL CONSTRUCTION MANAGEMENT	5,472.50	0.00	0.00	0.00	5,472.50
13	FEDERAL FEEDING	10,035.70	1,632.30	0.00	0.00	11,668.00
14	FEDERAL MANAGEMENT SYSTEMS	0.00	0.00	0.00	0.00	0.00
15	FINANCIAL ASSET MANAGEMENT	739.50	9,726.20	48,647.30	13,037.20	72,150.20
16	HEALTH & HUMAN SERVICES - HDP/ACTION	442.80	0.00	477.00	158.90	1,078.70
17	HEALTH & HUMAN SERVICES - PHS/HCFA	12,665.90	662.00	51.70	10.60	13,390.20
18	HEALTH & HUMAN SERVICES - SSA	7,930.60	980.00	4,661.00	476.40	14,048.00
19	FEDERAL HOSPITAL MANAGEMENT	9,191.40	2,721.10	0.00	0.00	11,912.50
20	HOUSING & URBAN DEVELOPMENT	2,421.10	581.90	666.70	121.90	3,791.60
21	INTERIOR	244.30	1,024.30	230.50	26.90	1,526.00
22	JUSTICE	128.40	666.90	288.40	54.80	1,138.50
23	LABOR	3,718.20	0.00	0.00	0.00	3,718.20
24	LOW INCOME STANDARDS & BENEFITS	6,685.00	0.00	0.00	0.00	6,685.00
25	NAVY	7,210.00	0.00	0.00	0.00	7,210.00
26	PERSONNEL MANAGEMENT	49,830.50	0.00	0.00	0.00	49,830.50
27	PROCUREMENT/CONTRACTS/INVENTORY MANAGEMENT	20,271.00	0.00	0.00	0.00	20,271.00
28	REAL PROPERTY MANAGEMENT	3,302.60	0.00	231.00	49.40	3,583.00
29	RESEARCH & DEVELOPMENT	45,007.60	66.40	0.00	0.00	45,074.00
30	LAND/FACILITIES/PERSONAL PROPERTY MANAGEMEN	200.70	426.20	0.00	1,522.60	2,149.50
31	STATE/AID/USIA	371.10	360.00	55.90	11.70	798.70
32	TRANSPORTATION	2,704.90	1,705.30	436.00	144.40	4,990.60
33	TREASURY	742.30	9,158.80	0.00	1,626.40	11,527.50
34	USER CHARGES	0.00	20,975.30	0.00	0.00	20,975.30
35	VETERANS ADMINISTRATION	2,066.10	953.30	208.00	53.90	3,281.30
36	PRIVATIZATION	7,719.40	17,226.20	0.00	3,471.50	28,417.10
37	PUBLISHING/PRINTING/REPRODUCTION & AUDIOVIS	1,463.00	264.80	0.00	0.00	1,727.80
38	TRAVEL & TRAFFIC MANAGEMENT	1,840.40	0.00	32.10	9.60	1,882.10
39	WAGE SETTING LAWS	11,650.00	0.00	0.00	0.00	11,650.00
40	DUPLICATED SAVINGS	-180,496.10	-20,631.10	-4,326.90	-2,252.10	-207,706.20
41	FEDERAL FINANCIAL MANAGEMENT	0.00	0.00	0.00	0.00	0.00
43	FEDERAL RETIREMENT SYSTEMS	58,100.00	0.00	0.00	0.00	58,100.00
46	FEDERALLY SUBSIDIZED PROGRAMS	58,900.00	0.00	0.00	0.00	58,900.00
47	OPPORTUNITIES BEYOND PPSSCC	12,710.90	5,174.00	0.00	0.00	17,884.90
48	CONGRESSIONAL ENCROACHMENT	7,755.30	1,070.00	0.00	0.00	8,825.30
49	FEDERAL HEALTH CARE COSTS	28,900.00	0.00	0.00	0.00	28,900.00
50	INFORMATION GAP IN FEDERAL GOVERNMENT	0.00	0.00	0.00	0.00	0.00
TOTAL		336,586.30	66,383.30	65,490.90	21,421.20	489,881.70

PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL
DETAIL LEVEL - BY TASK FORCE
(DOLLARS IN MILLIONS)

*** AGRICULTURE ***

REC NBR	AUTH	SUP	FUNC	RECOMMENDATION DESCRIPTION	HCOM	SCOM	HACOM	SACOM	TYPE	YEAR 1	YEAR 2	YEAR 3	TOTAL
ISSUE: PROMOTE LOAN GRADUATION FOR NEW FMHA LOANS (AG-01)													
01-1	A	I	35	MATCH NEW LOANS WITH A GRADUATION OF EXISTING LOAN	AR	AR	20	64	CASH	91.00	100.10	110.10	301.20
									INT	141.00	155.10	170.60	466.70
									TOT	232.00	255.20	280.70	767.90
01-2	A	I	35	PERFORMANCE EVALUATIONS BASED ON GRADUATION SUCCESS	AR	AR	20	64	TOT	0.00	0.00	0.00	0.00
01-3	A	I	35	GIVE COUNTY OFCRS INCENTIVES TO INIT LN GRADUATIONS	AR	AR	20	64	TOT	0.00	0.00	0.00	0.00
	TOTAL OF RECOMMENDATIONS								CASH	91.00	100.10	110.10	301.20
									INT	141.00	155.10	170.60	466.70
									TOT	232.00	255.20	280.70	767.90
ISSUE: IMPROVE MGMT INFO SYSTEMS (AG-02)													
02-1	A	II	35	INSTITUTE PROCEDURES/STANDARDS ON REPORTS CONTROL	AR	AR	20	64	TOT	0.00	0.00	0.00	0.00
02-2	A	II	35	UPDATE FORMS AND REPORTS INVENTORY	AR	AR	20	64	TOT	0.00	0.00	0.00	0.00
02-3	A	II	35	OBTAIN USER FEEDBACK ON PREPARED REPORTS	AR	AR	20	64	TOT	0.00	0.00	0.00	0.00
02-4	A	II	35	RANK LOAN QUALITY TO IMPROVE ACCOUNTABILITY	AR	AR	20	64	FLOW	178.00	0.00	0.00	178.00
									INT	17.80	19.60	21.50	58.90
									TOT	195.80	19.60	21.50	236.90
02-5	A	II	35	COMBINE/CONSOL RMS & MISDD INFORMATION SYSTEMS	AR	AR	20	64	CASH	0.70	0.70	0.80	2.20
	TOTAL OF RECOMMENDATIONS								CASH	0.70	0.70	0.80	2.20
									FLOW	178.00	0.00	0.00	178.00
									INT	17.80	19.60	21.50	58.90
									TOT	196.50	20.30	22.30	239.10
ISSUE: MOVE FM DIRECT LENDING TO FIXED AMT LOAN GUARANTEES (AG-03)													
03-1	C	I	45	PROVIDE CREDIT ASSISTANCE THROUGH LOAN GUARANTEES	AR	AR	20	64	CASH	68.20	75.10	82.60	225.90
									FLOW	475.00	0.00	0.00	475.00

FOOTNOTES: 1. YEARS INDICATE YEARS OF IMPLEMENTATION, NOT FISCAL YEARS.
2. ASTERISK INDICATES THAT RECOMMENDATION WAS REVIEWED BY CBO AND GAO.

PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL
DETAIL LEVEL - ISSUES REVIEWED BY CBO AND GAO
(DOLLARS IN MILLIONS)

*** AGRICULTURE ***

REC NBR	AUTH	SUP	FUNC	RECOMMENDATION DESCRIPTION	HCOM	SCOM	HACOM	SACOM	TYPE	YEAR 1	YEAR 2	YEAR 3	TOTAL
ISSUE: UPDATE THRIFTY FOOD PLAN (TFP) FAMILY MAKEUP (AG-09)													
*09-1	C	I	60	ANNUALLY UPDATE AGE & SEX OF TFP PARTICIPANTS	AR	AR	20	64	CASH	1039.00	1142.90	1257.20	3439.10
ISSUE: ELIMINATE SCHOOL LUNCH/FOOD STAMP BENEFIT OVERLAP (AG-13)													
*13-1	C	I	60	INCLUDE SCHOOL LUNCH BENEFITS AS INCOME FOR ELIGIBILITY	AR	AR	20	64	CASH	521.00	573.10	630.40	1724.50
ISSUE: ELIMINATE CCC DONATIONS MADE TO OTHER AGENCIES (AG-22)													
*22-1	P	I	35	HOLD FY 83 CCC DONATIONS TO MAXIMUM $728M	AR	AR	20	64	TOT	0.00	0.00	0.00	0.00
*22-2	P	I	35	ELIMINATE ALL CCC DONATIONS IN FY 84	AR	AR	20	64	TOT	0.00	0.00	0.00	0.00
*22-2X	P	I	35	COMBINED SAVINGS FOR RECOMS 22-1 AND 22-2	AR	AR	20	64	CASH	364.00	400.40	440.40	1204.80
TOTAL OF RECOMMENDATIONS:									CASH	364.00	400.40	440.40	1204.80
ISSUE: IMPROVE CASH MANAGEMENT OF TIMBER SALES (AG-41)													
*41-1	A	II	30	IMPLEMENT A FLAT PAYMENT SCHEDULE FOR TIMBER SALES	IN	IN	20	64	FLOW	1500.00	1575.00	1650.00	4725.00
									INT	145.90	153.20	160.80	459.90
									TOT	1645.90	1728.20	1810.80	5184.90

GRAND TOTAL *** AGRICULTURE ***

CASH	1924.00	2116.40	2328.00	6368.40
REV	0.00	0.00	0.00	0.00
FLOW	1500.00	1575.00	1650.00	4725.00
INT	145.90	153.20	160.80	459.90
TOT	3569.90	3844.60	4138.80	11553.30

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PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL
DETAIL LEVEL - HOUSE AUTHORIZING COMMITTEE
(DOLLARS IN MILLIONS)

*** House Agriculture Committee ***

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REC NBR	AUTH	SUP	FUNC	RECOMMENDATION DESCRIPTION	TYPE	YEAR 1	YEAR 2	YEAR 3	TOTAL
ISSUE: PROMOTE LOAN GRADUATION FOR NEW FMHA LOANS (AG-01)									
01-1	A	I	35	MATCH NEW LOANS WITH A GRADUATION OF EXISTING LOAN	CASH	91.00	100.10	110.10	301.20
					INT	141.00	155.10	170.60	466.70
					TOT	232.00	255.20	280.70	767.90
01-2	A	I	35	PERFORMANCE EVALUATIONS BASED ON GRADUATION SUCCESS	TOT	0.00	0.00	0.00	0.00
01-3	A	I	35	GIVE COUNTY OFCRS INCENTIVES TO INIT LN GRADUATIONS	TOT	0.00	0.00	0.00	0.00
				TOTAL OF RECOMMENDATIONS (SEE FOOTNOTE 2):	CASH	91.00	100.10	110.10	301.20
					INT	141.00	155.10	170.60	466.70
					TOT	232.00	255.20	280.70	767.90
ISSUE: IMPROVE MGMT INFO SYSTEMS (AG-02)									
02-1	A	II	35	INSTITUTE PROCEDURES/STANDARDS ON REPORTS CONTROL	TOT	0.00	0.00	0.00	0.00
02-2	A	II	35	UPDATE FORMS AND REPORTS INVENTORY	TOT	0.00	0.00	0.00	0.00
02-3	A	II	35	OBTAIN USER FEEDBACK ON PREPARED REPORTS	TOT	0.00	0.00	0.00	0.00
02-4	A	II	35	RANK LOAN QUALITY TO IMPROVE ACCOUNTABILITY	FLOW	178.00	0.00	0.00	178.00
					INT	17.80	19.60	21.50	58.90
					TOT	195.80	19.60	21.50	236.90
02-5	A	II	35	COMBINE/CONSOL RMS & MISDD INFORMATION SYSTEMS	CASH	0.70	0.70	0.80	2.20
				TOTAL OF RECOMMENDATIONS (SEE FOOTNOTE 2):	CASH	0.70	0.70	0.80	2.20
					FLOW	178.00	0.00	0.00	178.00
					INT	17.80	19.60	21.50	58.90
					TOT	196.50	20.30	22.30	239.10
ISSUE: MOVE FM DIRECT LENDING TO FIXED AMT LOAN GUARANTEES (AG-03)									
03-1	C	I	45	PROVIDE CREDIT ASSISTANCE THROUGH LOAN GUARANTEES	CASH	68.20	75.10	82.60	225.90
					FLOW	475.00	0.00	0.00	475.00

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PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL
DETAIL LEVEL - HOUSE SPENDING COMMITTEE
(DOLLARS IN MILLIONS)

*** Appropriations Committee ***

REC NBR	AUTH	SUP	FUNC	RECOMMENDATION DESCRIPTION	TYPE	YEAR 1	YEAR 2	YEAR 3	TOTAL
ISSUE: FEDERAL ADP LEADERSHIP AND DIRECTION (ADP-01)									
01-1	P	I	99	FORM OFFICE OF FEDERAL INFO RESOURCE MANAGEMENT (OIRM)	TOT	0.00	0.00	0.00	0.00
01-2	P	I	99	APPOINT DIRECTOR OF FEDERAL INFO RESOURCE MGMT	TOT	0.00	0.00	0.00	0.00
				TOTAL OF RECOMMENDATIONS (SEE FOOTNOTE 2):	TOT	0.00	0.00	0.00	0.00
ISSUE: AGENCY ADP MANAGEMENT (ADP-02)									
02-1-3	A	I	99	ESTAB INFO RESOURCE MGR FUNCTION WITHIN EACH AGENCY	TOT	0.00	0.00	0.00	0.00
				TOTAL OF RECOMMENDATIONS (SEE FOOTNOTE 2):	TOT	0.00	0.00	0.00	0.00
ISSUE: ADP ACQUISITION AND TECHNICAL SUPPORT (ADP-03)									
03-1	A	I	80	DELEGATE ADP PROCUREMENT AUTHORITY TO AGENCIES	TOT	0.00	0.00	0.00	0.00
03-2	A	I	80	PUBLISH ADP ACQUISITION GUIDELINES THROUGH GSA	TOT	0.00	0.00	0.00	0.00
03-3	A	I	80	CREATE TECHNICAL ADVISORY GROUP WITHIN OIRM	TOT	0.00	0.00	0.00	0.00
03-4	A	I	80	MAINTAIN INVENTORY OF ALL GOVT HWARE/SWARE/COMMS CAPABS	TOT	0.00	0.00	0.00	0.00
03-5	A	I	80	MEASURE BENCHMARKS AGAINST BENEFITS OF A-109	TOT	0.00	0.00	0.00	0.00
				TOTAL OF RECOMMENDATIONS (SEE FOOTNOTE 2):	TOT	0.00	0.00	0.00	0.00
ISSUE: HARDWARE & SOFTWARE RESOURCES MANAGEMENT (ADP-04)									
*04-1	A	I	99	EXAM ADP SYSTEMS FOR OBSOLESCENCE & RESPONSIVENESS	CASH	500.20	1100.30	1815.50	3416.00
*04-2	A	I	99	CONDUCT ANALYSIS OF SYSTEM EFFECTIVENESS W/IN EA AGENCY	TOT	0.00	0.00	0.00	0.00
*04-3	A	II	99	PROMOTE VARIETY OF PLAN/TECH TOOLS FOR ADP OPERATIONS	CASH	33.00	181.50	399.30	613.80

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PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL
DETAIL LEVEL - SENATE SPENDING COMMITTEE
(DOLLARS IN MILLIONS)

*** Senate Banking, Housing and Urban Affairs Committee ***

REC NBR	AUTH	SUP	FUNC	RECOMMENDATION DESCRIPTION	TYPE	YEAR 1	YEAR 2	YEAR 3	TOTAL
ISSUE: FEDERAL FINANCING BANK BUDGETARY TREATMENT (ASSET-31)									
31-1	C	I	80	BRING FFB-RELATED ACTIVITY W/I UNIFIED BUDGET TOTALS	CASH	146.50	161.10	177.30	484.90
				JURISIDICTION SHARED WITH: Senate Finance Committee					
				TOTAL OF RECOMMENDATIONS (SEE FOOTNOTE 2):	CASH	146.50	161.10	177.30	484.90
ISSUE: FHLBB: USER FEES FOR AGENCY BORROWINGS (BANK-19)									
19-1	C	I	37	CHARGE THE FHLBB SYSTEM A USER FEE FOR AGENCY STATUS	TOT	0.00	0.00	0.00	0.00
19-2	C	I	37	LIMIT INVESTMENTS OF DIST BANKS TO U.S. TREAS OBLIGS	TOT	0.00	0.00	0.00	0.00
				TOTAL OF RECOMMENDATIONS (SEE FOOTNOTE 2):	TOT	0.00	0.00	0.00	0.00
ISSUE: FHLBB: COLLECTION OF PREMIUMS, ASSESSMENTS & FEES (BANK-21)									
21-1	A	I	37	UNDERTAKE COLLECTION BY DIRECT DEBIT	FLOW	33.30	0.00	0.00	33.30
					INT	3.30	3.60	4.00	10.90
					TOT	36.60	3.60	4.00	44.20
				TOTAL OF RECOMMENDATIONS (SEE FOOTNOTE 2):	FLOW	33.30	0.00	0.00	33.30
					INT	3.30	3.60	4.00	10.90
					TOT	36.60	3.60	4.00	44.20
ISSUE: NCUA: CENTRAL LIQUIDITY FACILITY (BANK-24)									
24-3	C	II	37	LIMIT CLF INVESTMENTS TO U.S. TREASURY OBLIGATIONS	TOT	0.00	0.00	0.00	0.00
				TOTAL OF RECOMMENDATIONS (SEE FOOTNOTE 2):	CASH	1.00	1.90	2.10	5.00
ISSUE: NCUA: PLANS/CONTROL OF ADP FUNCTIONS (BANK-25)									
25-1	A	I	37	ESTABLISH ADP STEERING COMMITTEE	TOT	0.00	0.00	0.00	0.00

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PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL
DETAIL LEVEL - SENATE AUTHORIZING COMMITTEE
(DOLLARS IN MILLIONS)

*** Senate Finance Committee ***

REC NBR	AUTH	SUP	FUNC	RECOMMENDATION DESCRIPTION	TYPE	YEAR 1	YEAR 2	YEAR 3	TOTAL
ISSUE: U.S. CUSTOMS SERVICE: ADP UTILIZATION (ADP-08)									
08-1	A	II	75	CONTINUE SUPPORT OF ADP MODERNIZATION PLAN	CASH	1.60	24.40	57.50	83.50
08-2	A	II	75	PRIORITIZE DEVELOP OF AUTOMATED BROKER INTERFACE PGM	TOT	0.00	0.00	0.00	0.00
08-3	A	I	75	PUBLISH OA GUIDELINES RE: SPECIFICATIONS & POLICIES	CASH	0.50	1.40	3.40	5.30
08-4	A	I	75	DELEGATE AUTH FOR OA PROJECTS TO REGIONAL COMMISSIONERS	TOT	0.00	0.00	0.00	0.00
08-5	A	I	75	DEVELOP LONGRANGE ADP PLAN WITHIN CUSTOMS	TOT	0.00	0.00	0.00	0.00
				TOTAL OF RECOMMENDATIONS (SEE FOOTNOTE 2):	CASH	2.10	25.80	60.90	88.80
ISSUE: IRS: PRODUCTIVITY IMPROVEMENT (ADP-17)									
17-1	A	I	80	ACCELERATE IRS ADP REPLACEMENTS	TOT	0.00	0.00	0.00	0.00
17-2	C	I	80	UPGRADE ADP RESOURCES WITHIN IRS JURISIDICTION SHARED WITH: Senate Governmental Affairs Committee	TOT	0.00	0.00	0.00	0.00
17-3	A	I	80	COMPLETE REVISED TAX PROCESSING SYSTEM BY 1987	TOT	0.00	0.00	0.00	0.00
17-4	A	I	80	PERFORM COST/BENEFIT ANALYSIS OF IRS ADP PLANS	TOT	0.00	0.00	0.00	0.00
				TOTAL OF RECOMMENDATIONS (SEE FOOTNOTE 2):	TOT	0.00	0.00	0.00	0.00
ISSUE: COLLECTION AND DEPOSIT OF RECEIPTS (ASSET-02)									
*02-1	C	I	99	REQUIRE STATE GOVTS TO REMIT FICA = PVT INDUSTRY	FLOW	1250.00	0.00	0.00	1250.00
					INT	125.00	137.50	151.20	413.70
					TOT	1375.00	137.50	151.20	1663.70
*02-2	A	I	99	VERIFY IRS-RPS ENTRY AFTER CHECK PASSES SYSTEM	FLOW	661.30	0.00	0.00	661.30
					INT	66.10	72.70	80.00	218.80
					TOT	727.40	72.70	80.00	880.10

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PRESIDENTS PRIVATE SECTOR SURVEY ON COST CONTROL
SUMMARY OF RECOMMENDED SAVINGS BY FUNCTION

FUNC	FUNCTION TITLE	CASH-SAVE	REV-SAVE	CASH-FLOW	INTEREST	TOTAL
50	NATIONAL DEFENSE	124,553.20	2,272.30	9,425.00	1,886.00	138,136.50
150	INTERNATIONAL AFFAIRS	1,265.70	360.00	1,437.90	469.10	3,532.70
250	GENERAL SCIENCE, SPACE, AND TECHNOLOGY	1,522.60	0.00	0.00	0.00	1,522.60
270	ENERGY	3,945.10	22,255.10	389.40	3,322.90	29,912.50
300	NATURAL RESOURCES AND ENVIRONMENT	1,661.00	4,424.20	4,944.90	2,005.80	13,035.90
350	AGRICULTURE	2,579.70	985.90	178.00	525.60	4,269.20
370	COMMERCE AND HOUSING CREDIT	3,565.30	1,883.40	888.30	185.40	6,522.40
400	TRANSPORTATION	4,916.90	4,451.00	436.00	257.40	10,061.30
450	COMMUNITY AND REGIONAL DEVELOPMENT	1,413.20	141.40	667.70	219.30	2,441.60
500	EDUCATION, TRAINING, EMPLOYMENT, AND SOC	1,838.80	1,572.20	5,841.00	1,248.10	10,500.10
550	HEALTH	44,660.20	662.00	528.70	169.50	46,020.40
600	INCOME SECURITY	19,652.40	6,949.70	5,182.00	616.30	32,400.40
700	VETERANS BENEFITS AND SERVICES	9,481.50	2,394.50	208.00	53.90	12,137.90
750	ADMINISTRATION OF JUSTICE	515.60	1,049.70	44.20	5.00	1,614.50
800	GENERAL GOVERNMENT	19,768.50	9,178.30	14,050.00	7,036.30	50,033.10
850	GENERAL PURPOSE FISCAL ASSISTANCE	3.90	0.00	0.00	0.00	3.90
999	MULTIPLE FUNCTIONS	275,738.80	28,434.70	25,596.70	5,672.70	335,442.90
FUNCTION TOTAL		517,082.40	87,014.40	69,817.80	23,673.30	697,587.90
DUPLICATES (TASK 40)		-180,496.10	-20,631.10	-4,326.90	-2,252.10	-207,706.20
NET TOTAL (FUNC - DUPLICATES)		336,586.30	66,383.30	65,490.90	21,421.20	489,881.70

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PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL
DETAIL LEVEL - BY BUDGET FUNCTION
(DOLLARS IN MILLIONS)

*** NATIONAL DEFENSE ***

REC NBR	AUTH	SUP	FUNC	RECOMMENDATION DESCRIPTION	HCOM	SCOM	HACOM	SACOM	TYPE	YEAR 1	YEAR 2	YEAR 3	TOTAL
ISSUE: DEPT OF THE ARMY: ADP MGMT & PLANNING (ADP-10)													
10-1	A	II	05	CREATE AUTOMATION COMMAND TO DEVEL LONGRANGE ADP PLAN	DE	DE	22	66	TOT	0.00	0.00	0.00	0.00
10-2-3	A	II	05	USE "VIABLE" SYSTEM FOR ARMY ADP PROCUREMENT	DE	DE	22	66	TOT	0.00	0.00	0.00	0.00
10-3X	A	II	05	COMBINED SAVINGS FOR RECOMS 10-1 AND 10-2-3	DE	DE	22	66	CASH	250.00	275.00	302.50	827.50
TOTAL OF RECOMMENDATIONS:									CASH	250.00	275.00	302.50	827.50
ISSUE: DEPT OF THE AIR FORCE: IMPROVED INFO SYSTEMS (ADP-12)													
12-1-2	A	II	05	UTILIZE CLEAR OBJECTIVES IN ADP PROCUREMENT/DEVELOPMENT	DE	DE	22	66	TOT	0.00	0.00	0.00	0.00
12-3	A	II	05	EMPHASIZE FUNCTIONAL VS TECHNICAL AREAS FOR ADP	DE	DE	22	66	TOT	0.00	0.00	0.00	0.00
12-3X	A	II	05	COMBINED SAVINGS FOR RECOMS 12-1-2 AND 12-3	DE	DE	22	66	CASH	172.60	194.30	213.70	580.60
TOTAL OF RECOMMENDATIONS:									CASH	172.60	194.30	213.70	580.60
ISSUE: DEPT OF DEFENSE: INVENTORY MANAGEMENT SYSTEMS (ADP-16)													
*16-1	A	I	05	DEFINE/BUILD INVENTORY MGMT SYSTEM ON MODULAR BASIS	DE	DE	22	66	TOT	0.00	0.00	0.00	0.00
*16-2	P	I	05	APPROVE DOD EXPENDS FOR PROCUREMENT OF HWARE/SWARE	DE	DE	22	66	TOT	0.00	0.00	0.00	0.00
*16-2X	P	I	05	COMBINED SAVINGS FOR RECOMS 16-1 AND 16-2	DE	DE	22	66	CASH	288.00	4425.00	1361.20	6074.20
TOTAL OF RECOMMENDATIONS:									CASH	288.00	4425.00	1361.20	6074.20
ISSUE: RECRUITING/TRAINING/DISTRIBUTION OF NEW ENLISTEES (ARMY-01)													
01-1	A	II	05	APPT MGR OF RECRUITING/TRNG/DISTRIB OF NEW ENLISTEES	DE	DE	22	66	TOT	0.00	0.00	0.00	0.00
01-2	A	II	05	AUTOMATE ENLISTED PERSONNEL ASSIGNMENT SYSTEM	DE	DE	22	66	TOT	0.00	0.00	0.00	0.00
01-3	A	II	05	ENFORCE EXISTING PERSONNEL UTILIZATION POLICIES	DE	DE	22	66	TOT	0.00	0.00	0.00	0.00

FOOTNOTES: 1. YEARS INDICATE YEARS OF IMPLEMENTATION, NOT FISCAL YEARS.
2. ASTERISK INDICATES THAT ISSUE WAS REVIEWED BY CBO AND GAO.

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PRESIDENTS PRIVATE SECTOR SURVEY ON COST CONTROL
SUMMARY OF RECOMMENDED SAVINGS BY AGENCY-BUREAU

AGBU	AGENCY-BUREAU TITLE	CASH-SAVE	REV-SAVE	CASH-FLOW	INTEREST	TOTAL
0348	Office of Management and Budget	248.70	0.00	0.00	0.00	248.70
0414	Agency for International Development	156.60	360.00	0.00	0.00	516.60
0420	Overseas Private Investment Corporation	5.60	0.00	0.00	0.00	5.60
0500	Department of Agriculture	11,068.70	1,461.00	8,106.70	2,061.00	22,697.40
0600	Department of Commerce	303.00	471.00	15.00	3.30	792.30
0700	Department of Defense--Military	124,591.40	3,676.60	9,425.00	1,886.00	139,579.00
0900	Department of Health and Human Services	23,456.70	1,642.00	5,189.70	645.90	30,934.30
1000	Department of the Interior	460.50	1,610.10	230.50	1,549.50	3,850.60
1100	Department of Justice	113.30	666.90	288.40	54.80	1,123.40
1200	Department of Labor	1,818.60	0.00	0.00	0.00	1,818.60
1212	Pension Benefit Guaranty Corporation	30.10	3,650.60	262.00	54.10	3,996.80
1400	Department of State	214.50	0.00	55.90	11.70	282.10
1500	Department of the Treasury	700.00	9,522.30	14,316.00	7,124.40	31,662.70
1800	Education Activities	1,587.90	1,572.20	5,841.00	1,248.10	10,249.20
1900	Energy Activities	3,891.60	22,212.10	89.40	3,223.60	29,416.70
2000	Environmental Protection Agency	618.70	0.00	0.00	0.00	618.70
2100	Department of Transportation	4,849.10	4,451.00	436.00	257.40	9,993.50
2500	Department of Housing and Urban Development	2,457.40	590.00	666.70	121.90	3,836.00
2700	Office of Personnel Management	1,522.60	0.00	0.00	0.00	1,522.60
2900	Veterans Administration	9,481.50	2,394.50	208.00	53.90	12,137.90
3001	Action	26.70	0.00	0.00	0.00	26.70
3024	Civil Aeronautics Board	42.20	0.00	0.00	0.00	42.20
3038	Commodity Futures Trading Commission	0.00	37.70	0.00	0.00	37.70
3041	Consumer Product Safety Commission	8.30	0.00	0.00	0.00	8.30
3048	Export-Import Bank of the United States	4.60	0.00	0.00	0.00	4.60
3052	Farm Credit Administration	0.00	648.10	0.00	0.00	648.10
3064	Federal Deposit Insurance Corporation	0.00	272.70	0.00	0.00	272.70
3067	Federal Emergency Management Agency	997.40	0.00	10.00	3.30	1,010.70
3069	Federal Home Loan Bank Board	20.00	54.20	33.30	10.90	118.40
3072	Federal Maritime Commission	3.10	0.00	0.00	0.00	3.10
3084	Federal Trade Commission	3.60	0.00	0.00	0.00	3.60
3090	General Services Administration	556.50	1,078.80	231.00	49.40	1,915.70
3120	Interstate Commerce Commission	22.50	0.00	0.00	0.00	22.50
3133	National Credit Union Administration	6.60	379.00	0.00	0.00	385.60
3202	Occupational Safety and Health Review Commi	2.10	0.00	0.00	0.00	2.10
3206	Office of Personnel Management	35,938.40	0.00	0.00	0.00	35,938.40
3210	Postal Service	2,668.50	369.80	23.50	4.70	3,066.50
3220	Railroad Retirement Board	1,289.60	2,319.10	259.00	85.80	3,953.50
3245	Small Business Administration	231.70	199.30	315.00	0.00	746.00
3316	Tennessee Valley Authority	214.00	83.80	0.00	0.00	297.80
5564	Department of Treasury	484.90	0.00	0.00	0.00	484.90
5590	Synthetic Fuels Corporation	18.20	0.00	0.00	0.00	18.20
9900	Multi-agency distribution	106,470.90	6,660.50	19,488.80	2,971.50	135,591.70
TOTAL		336,586.30	66,383.30	65,490.90	21,421.20	489,881.70

CONGRESSIONAL BUDGET OFFICE
DATA MANAGEMENT SERVICES

PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL
DETAIL LEVEL - BY AGENCY-BUREAU
(DOLLARS IN MILLIONS)

*** Office of Management and Budget ***

REC NBR	AUTH	SUP	FUNC	RECOMMENDATION DESCRIPTION	HCOM	SCOM	HACOM	SACOM	TYPE	YEAR 1	YEAR 2	YEAR 3	TOTAL
ISSUE: CASH MGMT INCENTIVES - ADMINISTRATIVE (ASSET-09)													
09-1	P	I	99	ESTABLISH CASH MGMT GOALS IN OMB	AP	AP	32	82	TOT	0.00	0.00	0.00	0.00
ISSUE: STRUCTURE: HOW CONGRESS INTERFERES WITH ORGANIZATION (CONG-02)													
02-09	C	I	80	CLOSE 130 GOVT PRINTING OFFICE PRINTING PLANTS	LB	LB	32	82	CASH	30.00	33.00	36.30	99.30
02-10	C	I	80	REVISE GPO WAGES COMPARABLE WITH OTHER FED WORKERS	LB	LB	32	82	CASH	19.00	20.90	23.00	62.90
TOTAL OF RECOMMENDATIONS:									CASH	49.00	53.90	59.30	162.20
ISSUE: FEDERAL VEHICLE FLEET MANAGEMENT (LAND-02)													
02-1-2	P	I	99	ESTABLISH GOVERNMENT-WIDE FLEET MIS & STANDARDS	AP	AP	32	82	CASH	-10.00	30.20	66.30	86.50
ISSUE: ROLE OF OFFICE OF PROCUREMENT POLICY (PROC-01)													
01-1	C	I	99	REFORM PROCURE PROCESS THROUGH UNIFORM PROCURE SYSTEM	AP	AP	32	82	TOT	0.00	0.00	0.00	0.00
01-2	P	I	99	INTEGRATE OFPP INTO BUDGET/PROGRAM REVIEW	TY	TY	32	82	TOT	0.00	0.00	0.00	0.00
01-3	P	I	99	RETAIN FEDERAL ACQUISITION INSTITUTE IN OFPP/OMB	TY	TY	32	82	TOT	0.00	0.00	0.00	0.00

GRAND TOTAL *** Office of Management and Budget ***

TYPE	YEAR 1	YEAR 2	YEAR 3	TOTAL
CASH	39.00	84.10	125.60	248.70
REV	0.00	0.00	0.00	0.00
FLOW	0.00	0.00	0.00	0.00
INT	0.00	0.00	0.00	0.00
TOT	39.00	84.10	125.60	248.70

FOOTNOTES: 1. YEARS INDICATE YEARS OF IMPLEMENTATION, NOT FISCAL YEARS.
2. ASTERISK INDICATES THAT ISSUE WAS REVIEWED BY CBO AND GAO.

CONGRESSIONAL BUDGET OFFICE
DATA MANAGEMENT SERVICES

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PRESIDENTS PRIVATE SECTOR SURVEY ON COST CONTROL
SUMMARY OF RECOMMENDED SAVINGS BY IMPLEMENTATION AUTHORITY

AUT	AUTHORITY TITLE	CASH-SAVE	REV-SAVE	CASH-FLOW	INTEREST	TOTAL
A	ADMINISTRATIVE ACTION	109,473.40	15,493.70	30,825.60	8,036.70	163,829.40
C	CONGRESSIONAL ACTION	358,094.20	53,723.50	13,255.50	10,432.70	435,505.90
P	PRESIDENTIAL ACTION	49,514.80	17,797.20	25,736.70	5,203.90	98,252.60
TOTAL OF AUTHORITY		517,082.40	87,014.40	69,817.80	23,673.30	697,587.90
DUPLICATES(TASK 40)		-180,496.10	-20,631.10	-4,326.90	-2,252.10	-207,706.20
NET TOTAL (AUTHORITY - DUPLICATES)		336,586.30	66,383.30	65,490.90	21,421.20	489,881.70

APPENDIX B. PPSSCC THREE-YEAR SAVINGS ESTIMATES AND CBO BUDGET ESTIMATES FOR FISCAL YEARS 1985-1987

The preceding chapters of this report discuss 90 sets of proposals made by the President's Private Sector Survey on Cost Control (PPSSCC) for achieving cost savings. The table that follows lists these proposals in the order that they appear in this volume, and gives the PPSSCC three-year savings estimate, net of duplications, for each proposal as well as the three-year sum of the CBO estimates for fiscal years 1985-1987.

The CBO savings estimates summarized in Table B-1 were not constructed on the same basis as the Grace Commission estimates and, therefore, are not fully comparable. The CBO estimates show the potential budget impact for fiscal years 1985-1987, assuming implementation beginning October 1, 1984. The PPSSCC characterized its estimates as being of a "planning" nature and not of "budget" quality. They represent potential savings during the first three years of implementation without regard to specific fiscal years. In some instances, the PPSSCC reports acknowledge that the recommendations could not be implemented in the next three years. In other instances, the reports make clear that the potential savings would come much later--in the 1990s or even later.

The CBO savings estimates also were calculated in federal budget accounting terms; that is, in terms of budget authority, outlays, and revenues. The CBO savings estimates for 1985-1987 shown in Table B-1 are in terms of added revenues and/or lower outlays from the levels projected under a continuation of current laws and policies. Thus the CBO savings estimates indicate the potential effect of the PPSSCC proposals for reducing projected budget deficits. The Grace Commission savings estimates, on the other hand, were sometimes calculated in terms not used for the federal budget. As a result, many of the PPSSCC savings estimates are not true indicators of possible budget deficit reductions in the next three years.

For example, the PPSSCC savings estimates for its proposed changes in federal civilian and military retirement benefits are based on projected payroll costs in the years 2001 to 2003 and have been discounted to their estimated 1983 value. 1/ The CBO estimates for these proposals included in

1. The precedent for this approach is the treatment of military retirement costs in the 1985 defense budget, which is on a similar accrual accounting basis. However, in the new budget treatment, the accrual costs are offset in other accounts, making modest the overall impact of long-term changes on near-term outlay and deficit totals.

Table B-1, however, are based on the potential impact for reducing the 1985-1987 budget deficits and, understandably, are considerably lower. On the other hand, the PPSSCC savings estimates most widely used by the Grace Commission do not include cash-flow changes, although these are noted separately. Accelerating tax collections, debt repayments, or other changes in cash flow, however, can have a measurable impact on the level of federal revenues and outlays for a specific fiscal year and thus can result in lower budget deficits. These effects are included in the CBO budget estimates.

Two other caveats should be be considered in comparing the CBO and Grace Commission savings estimates. First, in order to develop many of the cost estimates, specific assumptions have to be made about the details of the proposals and how they would be implemented; in some instances, CBO analysts could not find the PPSSCC's assumptions in its published reports or background materials. Therefore, the CBO assumptions might not exactly reflect what the PPSSCC task forces assumed for their savings estimates. Second, there is a great amount of uncertainty that should be attached to many of the PPSSCC and CBO savings estimates, particularly for proposals that call for substantial change in current laws, policies, and administrative practices. There usually is no way to determine exactly what happened in the past when laws, policies, or practices were similarly changed, so it is not possible to determine the extent to which projected effects for these changes were realized. As a result, a number of assumptions have to be made about how future changes will affect government spending and revenues, and these may not prove to be correct.

The potential deficit reductions for 1985-1987 resulting from the adoption of all of the PPSSCC recommendations could be larger than those shown in Table B-1, since the CBO estimates apply to 70 percent of the savings estimated by the Grace Commission. Also, the CBO estimates do not include possible dynamic budget effects resulting from induced changes in the economy, especially lower interest rates brought about by lower budget deficits. On balance, however, it is CBO's judgment that the Grace Commission estimates of total possible savings that could be derived from its recommendations during the next three years are overstated.

In preparing estimates of potential budgetary impact, CBO adhered to a strict methodology. First, potential budgetary savings were measured against a uniform and fully documented set of budgetary baseline projections for the next five fiscal years. These projections are based on assumed inflation rates averaging about 5 percent and short-term interest rates averaging about 8 percent for this period. 2/ Second, potential outlay

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2. For a detailed description of these baseline projections, see Congressional Budget Office, Baseline Budget Projections for Fiscal Yeas 1985-1989 (February 1984).

savings or revenue gains were estimated only for those recommendations that were sufficiently specific to provide a basis for cost analysis and for which data were available to develop a budget impact statement. Third, the estimates assume that any needed Congressional action would be taken this year, and that the proposals would be implemented at a reasonable pace in line with past administrative performance. Fourth, the budget estimates made for individual proposals do not include possible lower interest costs resulting from lower deficits or reduced borrowing needs, consistent with CBO's methodology for preparing bill cost estimates for the Congress. An estimate of possible lower interest costs is provided in Chapter I, however, assuming that all of the reviewed PPSSCC recommendations as a group are implemented and eliminating any overlap or duplication among them.

TABLE B-1. PPSSCC THREE-YEAR PLANNING ESTIMATES AND CBO BUDGET ESTIMATES FOR FISCAL YEARS 1985-1987 (Savings in billions of dollars)

PPSSCC Proposal	PPSSCC Three-Year Planning Estimate a/	CBO Estimate for 1985-1987 b/
Chapter II. National Defense		
Reform Military Retirement Pay (RETIRE-1, 2, 4, 5, 6, 9), p. 35	28.1 c/	0.5 d/
Revise Military Commissary Operations (OSD-32, PRIV-5, CONG-1-3), p. 39	2.4	1.0
Shift CHAMPUS Users to Military Health Care Facilities (OSP-28), p. 41	1.2	0.8
Recover Medical Care Costs from Private Health Insurers (HOSP-11), p. 44	1.2	0.7
Remove Restrictions on Silver Stockpile Sales (CONG-3-1), p. 47	1.0	0.1
Revise DoD Contract Financing Procedures (ASSET-1), p. 50	1.7	6.0
Increase Use of Multiyear Procurement (USAF-19, NAVY-2, PROC-4), p. 53	6.6 e/	f/
Establish and Maintain Efficient Weapons Production Rates (OSD-21, ARMY-11, NAVY-1), p. 56	18.3 e/	f/
Increase Use of Common Parts and Standards (OSD-20), p. 61	7.3 h/	g/
Increase Dual-Sourcing of Weapons Programs (USAF-20, NAVY-3), p. 64	3.4 e/	f/
Improve Army Weapons System Acquisition (ARMY-10), p. 67	2.6 e/	f/

TABLE B-1.

PPSSCC Proposal	PPSSCC Three-Year Planning Estimate a/	CBO Estimate for 1985-1987 b/
Improve Procurement Process Management (PROC-6, 7, 8, 9), p. 70	7.8 e/	f/
Establish a Procurement Audit Service for Weapons Acquisition (OSD-37), p. 73	1.7	g/
Modernize Contractors Facilities and Enhance Productivity (NAVY-4), p. 75	1.5	f/
Consolidate or Close Bases and/or Base Activities (OSD-4, 8, 9), p. 78	4.3	f/
Improve Automated Inventory Management (ADP-16, OSD-2, PROC-11), p. 82	7.4 h/	f/
Change Physical Inventory Management (PROC-10, 12), p. 85	4.5	f/
Improve Management of DoD Laboratories (OSD-19), p. 89	1.6	f/
Improve DoD Long-Range Planning and Management for Research and Development (R&D-1, 2), p. 91	6.1	f/
Reduce DoD Oversight of Contractors' Independent Research and Development Costs (OSD-18), p. 93	0.3	g/
Revise DoD Financial Accounting and Management (USAF-1), p. 95	1.2	f/
PPSSCC Duplication for Weapons System Procurement Duplication	-16.2	
Subtotal, **Chapter II**	**94.2**	**9.2**

TABLE B-1.

PPSSCC Proposal	PPSSCC Three-Year Planning Estimate a/	CBO Estimate for 1985-1987 b/
Chapter III.		
Limit Growth in Health Care Costs to GNP Growth (MEDIC-1), **p. 107**	28.9	3.9
Revise Thrifty Food Plan Family Make-Up (AG-9), **p. 110**	3.4	1.5
Reduce Food Stamp-Child Nutrition Overlap (AG-13), **p. 114**	1.7	1.5
Reduce Commodity Credit Corporation Inventories (ASSET-5), **p. 117**	0.7	0.3
Require Multiple Dispensing of GSL Student Loans (EDUC-1-2), **p. 121**	1.0 h/	0.2
Increase GSL Origination Fee (ASSET-19), **p. 123**	1.6	0.9
Eliminate Federal Subsidy for Railroad Windfall Benefits (BANK-12), **p. 125**	1.2	1.0
Tighten Social Security Disability Claims Process (SSA-10), **p. 128**	3.6	2.4
Reduce the Deficit of the PBGC (BANK-1, 2, 3, 4, 5), **p. 132**	3.7	2.3
Eliminate Commodity Donations to Federal Agencies (AG-22), **p. 136**	1.2	-0.1
Require Prospective Payment Systems for Medicaid (LISAB-8), **p. 138**	1.0	0.1

TABLE B-1.

PPSSCC Proposal	PPSSCC Three-Year Planning Estimate a/	CBO Estimate for 1985-1987 b/
Apply Market Practices to Direct Federal Lending (ASSET-11), p. 185	2.9 h/	0.5
Improve Credit Processing and Debt Collection Management (ASSET-12, 26), p. 188	2.2 h/	g/
Increase Cost Recovery for Medical Care by VA & IHS (HOSP-12, 13), p. 190	2.6 h/	0.8
Phase-Out VA Health Care Facility Construction (HOSP-5, PRIV-4), p. 193	1.3	0.3
Eliminate Excess Federal Hospital Capacity (HEALTH-5), p. 196	0.9	f/
Improve Planning & Resource Allocation in VA Hospitals (HOSP-4), p. 198	4.9	f/
Consolidate Federal Highway Program Categories (TRANS-6), p. 200	1.0 h/	0.1
Improve Strategic Petroleum Reserve Procurement Policies (ENERGY-7), p. 202	1.3	0.2 j/
Improve Timber Sales Cash Management (AG-41), p. 205	0.5	0.6
Sell Unneeded Public Land (INT-1), p. 207	1.0	0.1
Improve Management of OCS Oil and Gas Leasing Program (LAND-1), p. 209	0.4	0
Impose User Fees for Certain Coast Guard Services (TRANS-19, PRIV-8, USER-16), p. 212	1.6 h/	2.2

TABLE B-1.

PPSSCC Proposal	PPSSCC Three-Year Planning Estimate a/	CBO Estimate for 1985-1987 b/
Improve Enforcement of Social Security Earnings Limit (SSA-6), p. **140**	4.0 h/	0
Coordinate and Automate State Welfare Data (LISAB-5), **p. 142**	1.4	*
Improve Income Verification in Means-Tested Programs (LISAB-4), **p. 144**	2.3	0.7
Refine VA Response to Guaranteed Loan Foreclosures (VETS-4), **p. 148**	0.2	0.3
Reduce Errors in VA Claims Process (VETS-2), **p. 151**	1.5	g/
Subtotal, **Chapter III**	**57.5**	**15.0**
Chapter IV.		
Replace Direct Loan Programs with Loan Guarantees (ASSET-18), **p. 169**	1.8 h/	23.4 j/
Raise Interest Rates on Government Loans (ASSET-15, STATE-7), **p. 172**	2.7	0.3
Consolidate Student Loan Programs (EDUC-1-1), **p. 175**	0.2 h/	1.2
Use IRS Refund Offset to Collect Delinquent Debt (ASSET-27), **p. 178**	0.4	0.8
Increase Debt Collection Through Outside Efforts (ASSET-28), **p. 181**	0.3	0
Charge Interest and Penalties on Delinquent Debt (ASSET-29), **p. 183**	1.1 h/	0

TABLE B-1.

PPSSCC Proposal	PPSSCC Three-Year Planning Estimate a/	CBO Estimate for 1985-1987 b/
Reduce Costs of Power Marketing Administrations (PRIV-2, USER-5, ENERGY-19), p. 215	19.1	1.2
Increase Private Participation in Space Programs (PRIV-3), p. 221	1.5	0
Repeal or Modify Davis Bacon Act (USAF-15, LABOR-12, WAGE-1), p. 223	5.0	1.5
Repeal or Modify Service Contract Act (USAF-14, LABOR-14, WAGE-3), p. 226	3.3	0.1
Repeal or Modify Walsh-Healey Public Contract Act (USAF-17, LABOR-13, WAGE-2), p. 230	3.4	0.8
Encourage Electronic Transfer of Federal Funds (ASSET-6), p. 233	0.6	1.2
Reduce Size of Government Vehicle Fleets (PRIV-7), p. 235	1.5 h/	0.3
Make Timely Payments for Procurement and Grants (ASSET-4), p. 238	2.6 h/	0
Improve Verification of Eligibility for Housing Subsidies (HUD-5), p. 241	1.9	0
Improve Research and Development Management (R&D-1, 2), p. 243	4.8	f/
Increase Use of Performance Specs for Construction Projects (CONST-18), p. 245	1.3	g/

TABLE B-1.

PPSSCC Proposal	PPSSCC Three-Year Planning Estimate a/	CBO Estimate for 1985-1987 b/
Update Obsolete Computer Hardware and Software Resources (ADP-4), **p. 247**	4.0	g/
Subtotal, **Chapter IV**	**76.1**	**35.3**
Chapter V.		
Reduce Civil Service Retirement Benefits (RETIRE-1, 2, 4, 5, 6, 9), **p. 259**	30.0 k/	6.4
Change Civil Service Retirement Accounting and Investment Practices (RETIRE-7, 8), **p. 263**	i/	5.6
Restrict Federal Employee Disability Benefits (PER-4, RETIRE-3, 4-3), **p. 266**	3.7	0.4
Modify Federal Employees Health Benefit Program (PER-2), **p. 269**	1.4	-0.5
Reform Pay Comparability Process for Blue-Collar Employees (PER-7), **p. 273**	1.8	-0.9
Reform Pay Comparability Process for White-Collar Employees (PER-6), **p. 275**	4.1	-*
Change Grades of General Schedule Employees (PER-5), **p. 278**	5.2	0.4
Step Up Federal Contracting Out for Support Services (PER-12, PROC-18, EX-1, CONG-4-7), **p. 281**	6.4	0.2
Improve Federal Work Force Productivity (ADP-6, PER-16), **p. 283**	17.1	0.5

TABLE B-1.

PPSSCC Proposal	PPSSCC Three-Year Planning Estimate a/	CBO Estimate for 1985-1987 b/
Improve Social Security Administration Management (SSA-4), p. 287	1.3	0.1
Improve Productivity of Federal Maintenance Personnel (PROP-6), p. 290	1.1 h/	*
Reduce Paid Annual Leave Benefits for Federal Employees (PER-3), p. 292	3.8	0.9
Subtotal, **Chapter V.**	**75.7**	**13.0**
Chapter VI.		
Tax Federal Subsidies (SUBS-1), p. 303	58.9	7.0
Index Federal Highway Taxes for Inflation (USER-21), p. 308	2.0	0.5
Limit Use of Tax-Exempt Bonds for Private Uses (EX-2), p. 310	5.2	3.2
Increase Railroad Retirement Tier 2 Payroll Contributions (BANK-11-1), p. 313	1.4	0
Improve Federal Tax Administration (TREAS-1, 3, 7), p. 315	10.7 h/	3.7
Accelerate State-Local Withholding of Social Security Taxes (ASSET-2-1), p. 318	0.4 h/	0.8
Accelerate Deposits by IRS Service Centers (ASSET-2-2), p. 320	0.2 h/	*
Accelerate Deposit of Federal Receipts (ASSET-2-3, 3-1, 3-5), p. 322	2.5 h/	g/

TABLE B-1.

PPSSCC Proposal	PPSSCC Three-Year Planning Estimate a/	CBO Estimate for 1985-1987 b/
Extent FDT System to Individual Estimate Tax Payments (ASSET-3-2), p. 326	0.2 h/	0.2
Accelerate Collection of Alcohol and Cigarette Taxes (ASSET-3-3), p. 328	0.3 h/	0.7
Accelerate Collection of Customs Duties (ASSET-3-4), p. 331	0.1 h/	0.3
PPSSCC Duplication for Federal Subsidies	-6.4	--
Subtotal, **Chapter VI.**	**75.6**	**16.2**

TABLE B.1 Footnotes

* Less than $50 million.

a. PPSSCC estimates include reduced interest costs and exclude cash-flow savings.

b. CBO estimates are in terms of reduced outlays or increased revenues, and generally exclude interest savings but include cash-flow effects.

c. PPSSCC estimates for military retired pay savings is in terms of accrued costs.

d. CBO estimate for military retired pay savings is in terms of budget outlays. The budget authority savings for 1985-1987 is $22.7 billion, which reflects accrued costs.

e. PPSSCC savings estimates for weapons system procurement proposals are gross savings; the PPSSCC estimate for overlap and duplication for these items is $16.2 billion.

f. The PPSSCC recommendations are not sufficiently specific for a budgetary impact estimate.

g. The budgetary impact of the PPSSCC recommendations cannot be estimated with available information.

h. PPSSCC proposals identified by Mr. Grace in testimony before the Senate Committee on Finance on February 8, 1984 as proposals that could be implemented during the next three years with minimal political resistance.

i. PPSSCC did not make an estimate for the effect of this specific proposal.

j. CBO budget estimate includes savings in off-budget outlays.

k. PPSSCC estimate for civil service retirement benefits is in terms of accrued costs, whereas the CBO estimate is in terms of reduced budget outlays.

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APPENDIX C. SUMMARY TABLES OF GRACE COMMISSION PROPOSALS BY BUDGET FUNCTION

The preceding pages of this report considers 90 sets of proposals by the President's Private Sector Survey on Cost Control (PPSSCC), better known as the Grace Commission, to reduce federal spending or increase revenues. The tables that follow list these proposals by budget function. Some spending proposals affect several functions; proposals of this kind are carried at the end of the tables. The revenue proposals are not assigned to specific budget functions.

Table A-1 lists spending reduction proposals and Table A-2 revenue proposals. The page number after the caption for each item locates the discussion of that item in the body of the report. The alpha-numeric codes in the parentheses refer to the PPSSCC reports and recommendations covered by each item. These codes are further described in Appendix B.

For each proposal, the tables display the estimated 1985-1989 savings or revenue gains that the Congressional Budget Office (CBO) estimates would result from enactment by the Congress and/or implementation by the Executive Branch. Both budget authority and outlay savings are shown for the spending reduction proposals. The estimates do not include any reduced interest costs following from lower budget deficits, or effects on spending or revenues that would occur if the performance of the economy as a whole were altered by adopting the proposals shown here. Unless specified otherwise, the estimates assume that the proposals in Table A-1 take effect on October 1, 1984, and those in Table A-2 on January 1, 1985.

TABLE C-1. ESTIMATED SPENDING SAVINGS FROM CBO BASELINE BY BUDGET FUNCTION, FISCAL YEARS 1985-1989 (In millions of dollars)

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
050 National Defense						
Reform Military Retirement Pay (RETIRE-1,2,4,5,6,9), p. 35						
Budget Authority	6,600	7,600	8,500	9,400	10,500	42,500
Outlays	-300	200	600	800	1,300	2,600
Revise Military Commissary Operations (OSD-32, PRIV-5, CONG-1-3), p. 39						
Budget Authority	258	387	402	418	435	1,900
Outlays	256	377	402	418	434	1,887
Shift CHAMPUS Users to Military Health Care Facilities (OSD-28), p. 41						
Budget Authority	260	285	310	340	370	1,565
Outlays	208	272	301	331	360	1,472
Recover Military Medical Care Costs from Private Health Insurers (HOSP-11), p. 44						
Budget Authority	245	260	280	300	320	1,405
Outlays	196	250	273	293	313	1,325
Remove Restrictions on Silver Stockpile Sales (CONG-3-1) p. 47						
Budget Authority	0	0	0	0	0	0
Outlays	40	40	40	40	40	200

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
050 National Defense						
Revise DoD Contract Financing Procedures (ASSET-1), p. 50						
Budget Authority	0	0	0	0	0	0
Outlays	1,300	4,200	500	0	200	6,200
Increase Use of Multiyear Procurement (OSD-23, USAF-19, NAVY-2, PROC-4), p. 53 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Establish and Maintain Efficient Weapons Production Rates (OSD-21,23, NAVY-1, ARMY-11), p. 56 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Increase Use of Common Parts and Standards (OSD-20), p. 61 b/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--

a. The PPSSCC recommendations are not sufficiently specific for a budgetary impact statement.

b. The budgetary impact of the PPSSCC recommendations cannot be estimated with available information.

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
050 National Defense						
Increase Dual-Sourcing of Weapons Programs (NAVY-3, USAF-20), p. 64 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Improve Army Weapons System Acquisition (ARMY-10), p. 67 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Improve Procurement Process Management (PROC-6,7,8,9), p. 70 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Establish a Procurement Audit Service for Weapons Acquisition (OSD-37), p. 73 b/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--

a. The PPSSCC recommendations are not sufficiently specific for a budgetary impact estimate.

b. The budgetary impact of the PPSSCC recommendations cannot be estimated with available information.

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
050 National Defense						
Modernize Contractors' Facilities and Enhance Productivity (NAVY-4), p. 75 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Consolidate or Close Bases and/or Base Activities (OSD-4,8,9), p. 78 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Improve Automated Inventory Management (ADP-16, OSD-2, PROC-11), p. 82 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Change Physical Inventory Management (PROC-10,12), p. 85 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--

a. The PPSSCC recommendations are not sufficiently specific for a budgetary estimate.

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
050 National Defense						
Improve Management of DoD Laboratories (OSD-19), p. 89 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Improve DoD Long-Range Planning and Management for Research and Development (R&D-1,2), p. 91 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Reduce DoD Oversight of Contractors' Independent Research and Development Costs (OSD-18), p. 93 b/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Revise DoD Financial Accounting and Management (USAF-1), p. 95 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--

a. The PPSSCC recommendations are not sufficiently specific for a budgetary estimate.

b. The budgetary impact of the PPSSCC recommendations cannot be estimated with available information.

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
250 General Science, Space and Technology						
Increase Private Participation in the Commercial Uses of Space (PRIVATE-3), p. 221						
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0
270 Energy						
Improve Procurement Policies for the Strategic Petroleum Reserve (ENERGY-7), p. 202						
Budget Authority	70	50	60	70	40	290
Outlays	70	50	60	70	40	290
Reduce Costs of Power Marketing Admministrations (PRIV-2, ENERGY-19, USER-5), p. 215						
Budget Authority	0	280	875	905	960	3,020
Outlays	0	280	875	905	960	3,020
300 Natural Resources and Environment						
Improve Timber Sales Cash Management (AG-41), p. 205						
Budget Authority	170	275	190	-100	-110	425
Outlays	170	275	190	-100	-110	525

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
350 Agriculture						
Reduce Commodity Credit Corporation Inventories (ASSET-5), p. 117						
Budget Authority	85	95	100	105	110	495
Outlays	85	95	100	105	110	495
Eliminate Commodity Donations to Federal Agencies (AG-22), p. 136						
Budget Authority	-15	-35	-50	-65	-80	-245
Outlays	-15	-35	-50	-65	-80	-245
400 Transportation						
Consolidate Federal Highway Program Categories (TRANS-6), p. 200						
Budget Authority	123	42	44	47	49	305
Outlays	21	71	48	43	45	228
Impose User Fees for Certain Coast Guard Services (TRANS-19, PRIV-8, USER-16), p. 212						
Budget Authority	690	740	760	780	810	3,780
Outlays	690	740	760	780	810	3,780

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
500 Education, Training, Employment and Social Services						
Require Multiple Dispensing of GSL Student Loans (EDUC-1,2), p. 121						
Budget Authority	-30	110	110	100	100	390
Outlays	0	110	110	100	100	420
Increase GSL Origination Fee (ASSET-19), p. 123						
Budget Authority	350	350	350	350	350	1,750
Outlays	175	350	350	350	350	1,575
Consolidate Student Loan Programs (EDUC-1-1), p. 175						
Budget Authority	525	495	410	410	405	2,245
Outlays	275	480	425	400	395	1,975
550 Health						
Require Prospective Payment Systems for Medicaid (LISAB-8), p. 138						
Budget Authority	20	30	40	45	50	185
Outlays	20	30	40	45	50	185
Modify Federal Employees Health Benefit Program (PER-2), p. 266						
Budget Authority	-110	-165	-165	-155	-140	-735
Outlays	-130	-195	-200	-195	-185	-905

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
570 Medical Insurance						
Limit Growth in Health Care Costs to GNP Growth (MEDIC-1), p. 107						
Budget Authority	0	0	2,600	5,300	8,400	16,300
Outlays	0	0	3,900	9,500	15,600	29,000
600 Income Security						
Revise Thrifty Food Plan Family Make-Up (AG-9), p. 110						
Budget Authority	490	515	540	560	585	2,690
Outlays	490	515	540	560	585	2,690
Reduce Food Stamp-Child Nutrition Overlap (AG-13), p. 114						
Budget Authority	500	515	530	550	570	2,665
Outlays	500	515	530	550	570	2,665
Eliminate Federal Subsidy for Railroad Windfall Benefits (BANK-12), p. 125						
Budget Authority	405	380	360	340	320	1,805
Outlays	405	380	360	340	320	1,805
Reduce the Deficit of the PPBG (BANK-1,2,3,4,5), p. 132						
Budget Authority	0	0	0	0	0	0
Outlays	700	760	820	890	970	4,140

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
600 Income Security						
Coordinate and Automate State Welfare Data (LISAB-5), p. 142						
Budget Authority	*	*	25	25	25	75
Outlays	*	*	25	25	25	75
Improve Income Verification in Means-Tested Programs (LISAB-4), p. 144						
Budget Authority	-5	350	375	395	425	1,540
Outlays	-31	340	405	425	455	1,594
Improve Verification of Eligibility for Housing Subsidies (HUD-5), p. 241						
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0
Reduce Civil Service Retirement Benefits (RETIRE-1,2,4,5,6,9), p. 259						
Budget Authority	10	210	410	590	730	1,950
Outlays	1,450	2,140	2,840	3,570	4,120	14,120
Restrict Federal Employee Disability Benefits (PER-4; RETIRE-3,4,3), p. 266						
Budget Authority	0	0	-5	-15	-35	-55
Outlays	40	115	200	295	385	1,035

* Less than $5 million in savings or costs.

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
650 Social Security						
Tighten Social Security Disability Claims Process (SSA-10), **p. 128**						
Budget Authority	65	130	210	225	280	910
Outlays	360	780	1,250	1,660	2,070	6,120
Improve Enforcement of Social Security Earnings Limit (SSA-6) **p. 140**						
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0
Improve Social Security Administration Management (SSA-4), **p. 287**						
Budget Authority	0	0	-2	-11	-27	-40
Outlays	0	0	50	110	180	340
700 Veterans Benefits and Services						
Refine VA Response to Guaranteed Loan Foreclosures (VETS-4), **p. 148**						
Budget Authority	82	0	54	64	80	280
Outlays	183	75	50	63	78	449

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
700 Veterans Benefits and Services						
Reduce Errors in VA Claims Processing (VETS-2), p. 151 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Increase Cost Recovery for Medical Care to VA & IHS. (HOSP-12,13), p. 190						
Budget Authority	260	280	301	325	350	1,516
Outlays	260	280	301	325	350	1,516
Phase-Out VA Health Care Facility Construction (HOSP-5, PRIV-4), p. 193						
Budget Authority	53	66	191	194	198	702
Outlays	47	93	124	119	143	526
Eliminate Excess Federal Hospital Capacity (HEALTH-5) p. 196 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--

a. The PPSSCC recommendations are not sufficiently specific for a budgetary estimate.

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
700 Veterans Benefits and Services						
Improve Planning and Resource Allocation in VA Hospitals (HOSP-4), p. 198 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
800 General Government						
Sell Unneeded Public Land (INT-1), p. 207						
Budget Authority	10	15	25	35	45	130
Outlays	10	15	25	35	45	130
950 Undistributed Offsetting Receipts						
Improve Management of OCS Oil and Gas Leasing Program (LAND-1) p. 209						
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0
Change Civil Service Retirement Accounting and Investment Practices (RETIRE-7,8), p. 263						
Budget Authority	-5,650	-6,600	-6,400	-6,800	-7,200	-32,050
Outlays	1,850	1,900	1,900	2,250	2,250	10,150

a. The PPSSCC recommendations are not sufficiently specific for a budgetary estimate.

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
999 Multiple Function						
Replace Direct Loan Programs With Loan Guarantees (ASSET-18) **p. 169**						
Budget Authority	1,540	860	920	1,130	1,360	5,810
Outlays	40	10	120	460	780	1,410
Raise Interest Rates on Government Loans (ASSET-15, STATE-7), **p. 172**						
Budget Authority	10	90	230	410	620	1,360
Outlays	10	90	230	410	620	1,360
Use IRS Refund Offset to Collect Delinquent Debt (ASSET-27), **p. 178**						
Budget Authority	150	250	450	650	900	2,400
Outlays	150	250	450	650	900	2,400
Increase Debt Collection Through Outside Efforts (ASSET-28), **p. 181**						
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
999 Multiple Function						
Charge Interest and Penalties on Delinquent Debt (ASSET-29) **p. 183**						
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0
Apply Market Practices to Federal Direct Lending (ASSET-11), **p. 185**						
Budget Authority	170	180	180	190	190	910
Outlays	170	180	180	190	190	910
Improve Credit Processing and Debt Collection Management (ASSET-12,26), **p. 188** a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Repeal or Modify Davis Bacon Act (USAF-15, LABOR-12, WAGE-1) **p. 223**						
Budget Authority	850	900	940	990	1,040	4,720
Outlays	250	550	720	820	900	3,240

a. The PPSSCC recommendations are not sufficiently specific for a budgetary estimate.

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
999 Multiple Function						
Repeal or Modify Service Contract Act (USAF-14, LABOR-14, WAGE-3), **p. 226**						
Budget Authority	39	41	43	45	47	215
Outlays	37	41	43	45	47	213
Repeal or Modify Walsh-Healey Public Contract Act (USAF-17, LABOR-13, WAGE-2), **p. 230**						
Budget Authority	520	550	570	590	620	2,850
Outlays	60	260	460	530	580	1,890
Encourage Electronic Transfer of Federal Funds (ASSET-6), **p. 233**						
Budget Authority	1,150	10	10	10	10	1,190
Outlays	1,150	10	10	10	10	1,190
Reduce Size of Government Vehicle Fleets (PRIV-7), **p. 235**						
Budget Authority	160	130	15	-35	140	410
Outlays	160	130	15	-35	140	410

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
999 Multiple Function						
Make Timely Payments for Procurement and Grants (ASSET-4) p. 238						
Budget Authority	0	0	0	0	0	0
Outlays	0	0	0	0	0	0
Increase Use of Performance Specifications for Construction Projects (CONST-18), p. 245 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Improve Research and Development Management (R&D-1,2), p. 243 a/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--
Update Obsolete Computer Hardware and Software Resources (ADP-4), p. 247 b/						
Budget Authority	--	--	--	--	--	--
Outlays	--	--	--	--	--	--

a. The PPSSCC recommendations are not sufficiently specific for a budgetary estimate.

b. The budgetary impact of the PPSSCC recommendations cannot be estimated with available information.

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
999 Multiple Function						
Reform Pay Comparability Process for Blue-Collar Employees (Per-7) **p. 273**						
Budget Authority	-220	-375	-400	-420	-490	-1,905
Outlays	-190	-340	-370	-390	-420	-1,710
Reform Pay Comparability Process for White-Collar Employees (PER-6) **p. 275**						
Budget Authority	-8	-9	-11	-12	-14	-54
Outlays	-8	-9	-11	-12	-13	-53
Change Grades of General Employees (PER-5), **p. 278**						
Budget Authority	60	100	245	435	580	1,420
Outlays	60	100	230	410	545	1,345
Step-Up Federal Contracting Out for Support Services (PER-12, PROC-18, EX-1, CONG-4,7), **p. 281**						
Budget Authority	0	140	420	570	610	1,740
Outlays	0	15	140	270	290	715

TABLE C-1.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
999 Multiple Function						
Improve Federal Work Force Productivity (ADP-6, PER-16), p. 283						
Budget Authority	-2	-4	480	1,020	1,630	3,124
Outlays	-2	-4	475	1,020	1,625	3,114
Improve Productivity of Federal Maintenance Personnel (PROP-6), p. 290						
Budget Authority	0	0	40	90	150	280
Outlays	0	0	40	85	140	265
Reduce Paid Annual Leave Benefits for Federal Employees (PER-3), p. 292						
Budget Authority	175	370	395	415	440	1,795
Outlays	175	365	390	410	430	1,770

TABLE C-2. ESTIMATED REVENUE GAINS OVER CBO BASELINE PROJECTIONS, FISCAL YEARS 1985-1989 (In billions of dollars)

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Addition
Tax Federal Subsidy Payments (SUBS-1), p. 303	3.0	4.0	4.0	4.0	4.0	19.0
Limit Use of Tax-Exempt Revenue Bonds for Private Purposes (EX-2), p. 308	0	0.1	0.4	0.8	1.1	2.4
Adjust Federal Highway Taxes for Inflation (USER-21), p. 310	0.3	1.0	1.9	2.7	3.8	9.7
Increase Railroad Retirement Tier 2 Payroll Contributions (BANK-11), p. 313	0	0	0	0	0	0
Improve Federal Tax Administration (TREAS-1,3,7), p. 315	0.3	1.1	2.3	3.8	5.5	13.0
Accelerate Payments of Withheld Social Security Taxes by State and Local Governments (ASSET-2-1), p. 318	0.7	*	0.1	0.1	0.1	1.0

TABLE C-2.

PPSSCC Proposal	1985	1986	1987	1988	1989	Cumulative Five-Year Savings
Accelerate Deposits by IRS Service Centers (ASSET-2-2), p. 320	a/	a/	a/	a/	a/	a/
Accelerate Deposits of Federal Receipts (ASSET-2-3,3-1,3-5), p. 322	*	*	*	*	*	0.1
Extend Federal Tax Deposit System to Individual Estimated Tax Payments (ASSET-3-2), p. 326	0.1	0.1	0.1	0.1	0.1	0.3
Accelerate Collection of Alcohol and Cigarette Taxes (ASSET-3-3), p. 328	0.7	*	*	*	*	0.8
Accelerate Collection of Customs Duties (ASSET-3-4), p. 331	0.3	*	*	*	*	0.4

* Less than $50 million.

a/ The budgetary impact of the PPSSCC recommendations cannot be estimated with available information.

APPENDIX D. MAJOR CONTRIBUTORS

This report was prepared for publication by the Congressional Budget Office. The principal authors of the overview chapter and the introduction to the five chapters containing the individual analyses of Grace Commission proposals were Earl A. Armbrust, James L. Blum, Martin D. Levine, Robert Lucke, Charles E. Seagrave, Robert A. Sunshine, and Edward A. Swoboda. The report was edited by Patricia H. Johnston, Francis S. Pierce, and Johanna Zacharias. The final manuscript was prepared for publication by Barbara Bakari, Mary Braxton, Linda Brockman, Jill Bury, Cynthia Cleveland, Gwen Coleman, Mechita O. Crawford, Deborah L. Dove, Dorleen E. Dove, Mary Pat Gaffney, Shirley Hornbuckle, Thelma Jones, Theresa Kirkland, Brenda Lockhart, and Philip Willis.

The computerized index of the Grace Commission recommendations described in Appendix A was organized by the Data Base Administration Unit of the CBO Budget Analysis Division. The members of the unit who contributed to this effort are Sandra Hoffman, C. Wesley Jenkins, and Jeffrey M. Swersey. Glen S. Goodnow and Mitchell Mutnick assigned Congressional Committee codes to the computer data base.

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