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Report to the President and the Congress

January 1991

THE BUDGET FOR FISCAL YEAR 1991

Scoring of GSA Lease-Purchases

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GAO

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General Accounting Office
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Comptroller General
of the United States

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

In our December 10, 1990, compliance report[1] issued under the Budget Enforcement Act of 1990, we stated that we would report later on the difference between the Office of Management and Budget's (OMB) and the Congressional Budget Office's (CBO) budgetary scoring of certain General Services Administration (GSA) lease-purchase contracts. OMB's treatment produced higher outlay estimates for fiscal year 1991 than did CBO's. To congressional observers, it appeared that this resulted from OMB's adoption of new scoring procedures for privately financed lease-purchase contracts that the Congress believed would not be applied to previously approved projects.

During the 1990 budget summit talks leading to the act, the President's representatives and congressional negotiators worked from different budget baselines which had different assumptions about the nature of the GSA projects. Consequently, they reached different conclusions about the degree to which these projects would constitute a claim on the budget agreement allocations for domestic discretionary funds. The difference in outlays resulted from a change in how the projects were to be financed. This change, which had been initiated by the administration, was not explained in the administration's official budget documents. Appendix I provides details on this matter.

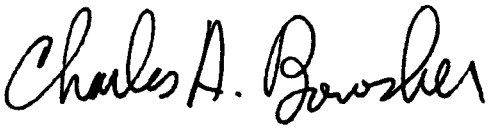
We believe that the key to resolving the issue would be for the administration and the Congress to reconsider the matter in light of a common set of assumptions about the contracts' method of financing and the required scoring rule. We understand that the administration will be initiating discussions with the Congress to develop a mutually acceptable way of resolving this issue. We believe that is an appropriate course of action.

We would be glad to work with congressional and administration representatives on any remaining questions on this or other Budget Enforcement Act issues.

[1]The Budget for Fiscal Year 1991: Compliance With the Balanced Budget and Emergency Deficit Control Act of 1985 (GAO/AFMD-91-35, December 10, 1990).

Copies of this report are being provided to the Chairmen and Ranking Minority Members of the House and Senate Appropriations and Budget Committees and to the Directors of the Office of Management and Budget and the Congressional Budget Office. Copies will also be made available to other interested parties upon request.

This report was prepared under the direction of James L. Kirkman, Director, Budget Issues, who may be reached on (202) 275-9573 if you or your staffs have any questions. Other major contributors to the report are listed in appendix II.



Charles A. Bowsher
Comptroller General
of the United States

Scoring of GSA Lease-Purchases

This appendix provides additional information on this lease-purchase scoring issue.

Background

The question of how to report budget authority and outlays in the budget for GSA's lease-purchase contracts was a long-standing budget scoring issue that led to discussions beginning in November 1989 among the staffs of OMB, CBO, and the House and Senate Appropriations and Budget Committees. Lease-purchase contracts (assuming private financing) are a more costly method of acquiring government office space than government-financed purchases. Previous scoring rules provided an incentive for such lease-purchase projects because they permitted spreading budget authority and outlays over the period of the lease and hid the true cost of the acquisitions. A scoring change was sought in order to more accurately reflect the government obligations resulting from lease-purchase contracts. This scoring change is likely to discourage the use of lease-purchase financing in favor of less costly methods.

Around May of 1990, staff from OMB, CBO, and the Budget Committees informally agreed to the general principles of a scoring change for lease-purchase contracts. After further discussions with the Appropriations Committees' staffs, the understanding was formalized when it was restated in October 1990 in the managers' joint statement in the conference report accompanying the Budget Enforcement Act of 1990.

The managers' statement explained that under the new scoring rules, budget authority for lease-purchases will be scored in the year that the budget authority is first made available in the amount of the government's total estimated legal obligations. The budget authority will include all costs of the project except for the imputed interest costs. Outlays for lease-purchases in which the government assumes substantial risk will be scored during the period in which the contractor constructs, manufactures, or purchases the asset. The new rules will provide up-front budget recognition of the costs of lease-purchase contracts rather than, as under the old rules, reporting those costs incrementally over the life of the contracts. Thus, the leases where the government assumes substantial risk would be scored as if they were outright purchases. The managers' statement also specified that "contracts under existing authority will not be rescored" and that the new scoring rules will be applied to projects authorized beginning in fiscal year 1991.

OMB's November 1990 final sequester report for fiscal year 1991 attributed a $367 million difference in estimated 1991 outlays between OMB and CBO to a difference in scoring existing lease-purchases.[2] OMB seemed to be applying the new scoring rules, producing higher outlay estimates for 1991, while CBO seemed to be following the old rules. In our December report, we did not identify OMB's scoring as a legal compliance issue. The act explicitly assigned the sequester-related scoring responsibilities to OMB, and OMB's scoring of the projects did not appear to violate any provision of law. There was a question, however, as to whether OMB's scoring was contrary to the managers' statement against rescoring existing contracts.

Objective, Scope, and Methodology

The objective of this review was to determine the nature of the difference between OMB's and CBO's scoring of certain GSA lease-purchase contracts. To determine this, we sought to reconstruct the information and assumptions pertaining to lease-purchase scoring used by the budget summit participants in 1990. We wanted to identify the lease-purchase scoring rules that were being applied as the participants negotiated and agreed upon the domestic discretionary spending caps.

To reconstruct the events, we analyzed baseline information contained in OMB's July 1990 Mid-Session Report, and in the August, October, and November sequester reports issued by both OMB and CBO. We also obtained other relevant documents and interviewed knowledgeable staff of OMB, CBO, the House and Senate Appropriations Committees, the House and Senate Budget Committees, and the General Services Administration. Our work was conducted during November and December 1990.

OMB Used FFB Financing for the Contracts

OMB's publications characterized its budgetary treatment of these construction projects as revised scoring for "lease-purchases." This was misleading, however, because it implied that the new rule was applied to normal lease-purchase contracts with third-party (i.e., private) financing. In fact, OMB and GSA had agreed by about June 1990 to finance these projects with cheaper Federal Financing Bank (FFB) financing, in effect converting these lease-purchase contracts into outright purchase contracts with government financing provisions.

[2]We have since determined that lease-purchase outlays account for a $299 million difference. The remainder is attributable to technical differences between CBO and OMB unrelated to the scoring of the disputed lease purchase projects.

An OMB official explained that its up-front outlay scoring for the FFB-financed GSA projects was reported in the July 1990 Mid-Session Report and represented the application of an existing scoring rule rather than a new scoring for "lease-purchases," as stated in its report.[3] Apparently, the existing rule for scoring direct federal purchases was confused with the new rule for lease-purchases because both call for up-front, on-budget outlay recognition.

In the 1990 budget summit talks, the administration used OMB's baseline as its reference point for outlay caps, incorporating up-front scoring of the contracts as FFB-financed purchases.

CBO Assumed Different Financing for the Contracts

The congressional negotiators and their top staff viewed these matters differently than OMB. The CBO baseline they used did not treat the GSA projects as FFB-financed projects. Rather, the baseline continued to treat the projects as third-party financed lease-purchases and, accordingly, provided incremental outlay recognition under the old rules for such lease-purchases. Congressional staff point to the conference report's managers' statement as evidence of the Congress' understanding that the spending caps assumed the lower level of outlay recognition associated with the old rule for existing lease-purchases and that the new rules should be applied to future contracts.

Because the participants who negotiated the final discretionary spending caps were not all using a common baseline and reportedly did not address the technicalities of scoring these contracts, the final agreement regarding the caps did not clearly embody a particular scoring rule. The two baselines made different assumptions about the method of financing the contracts and, consequently, different scoring concepts were applied. This led to the subsequent misunderstanding between congressional and administration staffs on the question.

[3]The OMB rule for scoring FFB-financed purchases is based upon a requirement of the Congressional Budget Act of 1974, as amended. The legislation provides that all FFB receipts and disbursements with respect to any obligations which are issued, sold, or guaranteed by a federal agency shall be treated as a means of financing such agency.

Major Contributors to This Report

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