

March 2000

BUDGET ISSUES

Budgetary Implications of Selected GAO Work for Fiscal Year 2001



G A O

Accountability * Integrity * Reliability

Contents

Letter

7

Appendixes

Appendix I: Explanation of Conventions Used to Estimate Savings and Revenue Gains	10
Appendix II: A Framework for Considering Cost Savings and Revenue Increases	11
Appendix III: Options for Increased Savings and Revenue Gains	18
050 National Defense	19
Reassess Defense's Guided Weapons Program	20
Limit Commitment to Production of the F-22 Fighter Until Testing Is Complete	23
Reassess the Army's Comanche Helicopter Program	27
Reassess the Army's Crusader Program	30
Acquire Conventionally Powered Aircraft Carriers	32
Reorganize C-130 and KC-135 Reserve Squadrons	35
Eliminate or Retask Dedicated Continental Air Defense Units	37
Reduce the Number of Carrier Battle Group Expansions and Upgrades	39
Assign More Air Force Bombers to Reserve Components	41
Eliminate Excess Force Structure in the Army National Guard's Combat Forces	44
Reassess the Need for the Selective Service System	46
Eliminate Unneeded Department of Navy Redistribution Sites	48
Rightsize DOD's Health System for Active Duty Care	50
Require Copayments for Care in Military Treatment Facilities	53
Improve the Administration of Defense Health Care	55
Close the Uniformed Services University of the Health Sciences	57
Consolidate Military Exchange Stores	59
Continue Defense Infrastructure Reform	62
150 International Affairs	66
Improve State Department Business Processes	67
Streamline U.S. Overseas Presence	70
Reduce the Risk Assumed by Export-Import Bank Programs	73
Eliminate U.S. Contributions to Administrative Costs in Rogue States	76
250 Science, Space and Technology	78
Continue Oversight of the International Space Station and Related Support Systems	79
270 Energy	81
Corporatize or Divest Selected Power Marketing Administrations	82

Recover Power Marketing Administrations' Costs	86
Consolidate or Eliminate Department of Energy Facilities	89
Reduce Department of Energy's Contractors' Separation Benefits	92
Exempt Certain Department of Energy Operating Contractors from State Taxes	94
Increase Nuclear Waste Disposal Fees	96
Recover Federal Investment in Successfully Commercialized Technologies	98
Reduce Hanford Tank Waste Cleanup Costs	100
Reassess the Department of Energy's Strategic Computing Initiative	102
Rescind Clean Coal Technology Funds	104
Reduce the Costs of the Rural Utilities Service's Electricity and Telecommunications Loan Programs	106
300 Natural Resources and Environment	108
Pursue Cost-Effective Alternatives to NOAA's Research/Survey Fleet	109
Reassess Federal Land Management Agencies Functions and Programs	112
Implement Market-Based Incentives for Use of Federal Lands and Natural Resources	114
Revise the Mining Law of 1872	116
Reduce Federal Outlays for Natural Resources Revenue Sharing	118
Coordinate Federal Policies for Subsidizing Water for Agriculture and Rural Uses	120
Increase Federal Revenues Through Water Transfers	125
Improve Hazardous Waste Cleanup Cost Recovery	127
Identify and Recover Excess Funds in Superfund Contracts	129
Better Control Spending for Superfund Cleanup Contractors	131
Improve Oversight of Superfund Administrative Expenditures to Better Identify Opportunities for Cost Savings	133
Increase Flexibility in Preparing Health Assessments for Superfund Sites	135
350 Agriculture	137
Consolidate Common Administrative Functions at the Department of Agriculture	138
Further Consolidate Farm Service Agency County Offices	140
Strengthen Controls Over Crop Insurance Claims	142
Terminate or Significantly Reduce the Department of Agriculture's Market Access Program	144
370 Commerce and Housing Credit	147
Recapture Interest on Rural Housing Loans	148
Reduce FHA's Insurance Coverage	150

Require Self-Financing of Mission Oversight by Fannie Mae and Freddie Mac	152
400 Transportation	154
Redefine Amtrak’s Mission to Improve Financial Performance and Reduce Subsidies	155
Close, Consolidate, or Privatize Some Coast Guard Facilities	157
Reassess the Coast Guard Deepwater Project	159
Improve FAA Oversight of General Aviation Airport Land and Revenue	161
Apply Cost-Benefit Analysis to Replacement Plans for Airport Surveillance Radars	163
Eliminate Cargo Preference Laws	165
Improve Department of Transportation’s Oversight of Its University Research	167
Increase Aircraft Registration Fees to Recover Actual Costs	169
Eliminate the Pulsed Fast Neutron Analysis Inspection System	171
450 Community and Regional Development	173
Limit Eligibility for Federal Emergency Management Agency Public Assistance	174
Eliminate the Flood Insurance Subsidy on Properties That Suffer the Greatest Flood Loss	176
Eliminate Flood Insurance For Certain Repeatedly Flooded Properties	178
500 Education, Training, Employment, and Social Services	180
Consolidate Student Aid Programs	181
550 Health	183
Create a Single Federal Agency to Administer a Unified Food Inspection System	184
Charge Beneficiaries for Food Inspection Costs	186
Implement Risk-Based Meat and Poultry Inspections	188
Convert Public Health Service Commissioned Corps Officers to Civilian Status	190
Control Prescription Drug and Medicaid Fraud	192
Prevent States From Using Illusory Approaches to Shift Medicaid Program Costs to the Federal Government	195
Improve Fairness of Medicaid Matching Formula	197
570 Medicare	199
Design New Payment System So That Medicare Does Not Overpay for Home Health Care	200
Modify the Skilled Nursing Facility Payment Method to Ensure Appropriate Payments	202

Adjust Medicare Payment Allowances to Reflect Changing Technology, Costs, and Market Prices	204
Increase Medicare Program Safeguard Funding	208
Evaluate the Reasonableness of Medicare Payments for New Technology Procedures	212
Continue to Reduce Excess Payments to Medicare+Choice Health Plans	214
Reassess Medicare Incentive Payments in Health Care Shortage Areas	217
600 Income Security	220
Simplify Supplemental Security Income Recipient Living Arrangements	221
Improve Social Security Benefit Payment Controls	223
Implement a Service Fee for Successful Non-Temporary Assistance for Needy Families (TANF) Child Support Enforcement Collections	225
Develop Comprehensive Return-To-Work Strategies for People With Disabilities	227
Improve Reporting of DOD Reserve Employee Payroll Data to State Unemployment Insurance Programs	230
Reduce Federal Funding Participation Rate for Automated Child Support Enforcement Systems	233
Share the Savings From Bond Refundings	235
Revise Benefit Payments Under the Federal Employees' Compensation Act	237
700 Veterans Benefits and Services	244
Revise VA's Disability Ratings Schedule to Better Reflect Veterans' Economic Losses	245
Discontinue Veterans' Disability Compensation for Nonservice Connected Diseases	247
Increase Cost Sharing for Veterans' Long-Term Care	249
Reassess Unneeded Health Care Assets Within the Department of Veterans Affairs	251
Limit Enrollment in Veterans Affairs Health Care System	254
Reduce Department of Veterans Affairs Outpatient Pharmacy Costs	256
750 Administration of Justice	258
Develop Criteria for Determining When Weed and Seed Sites Are Self-Sustaining	259
Consolidate Asset Forfeiture Programs at the Departments of Justice and Treasury	261
Complete Criminal Alien Deportation Proceedings to Avoid Unneeded Detention Costs	263

800 General Government, 900 Net Interest, and 999 Multiple	265
Eliminate Pay Increases After Separation in Calculating Lump-Sum Annual Leave Payments	266
Open the Government Printing Office to Competition	268
Eliminate the 1-Dollar Note	270
Recognize the Costs Up-front of Long-Term Space Acquisitions	272
Increase Fee Revenue From Federal Reserve Operations	275
Repeal the Davis-Bacon Act	277
Target Funding Reductions in Formula Grant Programs	280
Adjust Federal Grant Matching Requirements	285
Prevent Delinquent Taxpayers From Benefiting From Federal Programs	288
Receipts	290
Increase Collection of Returns Filed by U.S. Citizens Living Abroad	291
Increase the Use of Electronic Funds Transfer for Installment Tax Payments	293
Limit the Tax Exemption for Employer-Paid Health Insurance	295
Tax Interest Earned on Life Insurance Policies and Deferred Annuities	297
Require Corporate Tax Document Matching	299
Improve Independent Contractor Tax Compliance	300
Further Limit the Deductibility of Home Equity Loan Interest	302
Improve Administration of the Tax Deduction for Real Estate Taxes	304
Repeal the Partial Exemption for Alcohol Fuels From Excise Taxes on Motor Fuels	306
Shift Gasoline Excise Tax Collections to the Refinery Level	308
Index Excise Tax Bases for Inflation	310
Increase the Use of Seizure Authority to Collect Delinquent Taxes	312
Increase Collection of Self-Employment Taxes	314
Increase Highway User Fees on Heavy Trucks	316
Impose Pollution Fees and Taxes	318
Appendix IV: Options Not Updated for This Report	320
Appendix V: GAO Contacts and Staff Acknowledgments	322



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

B-281041

March 31, 2000

The Honorable Pete V. Domenici
Chairman
The Honorable Frank R. Lautenberg
Ranking Minority Member
Committee on the Budget
United States Senate

The Honorable John R. Kasich
Chairman
The Honorable John M. Spratt, Jr.
Ranking Minority Member
Committee on the Budget
House of Representatives

As you requested, this report identifies in a single document the budgetary implications of selected program reforms discussed in past GAO work but not yet implemented or enacted. This report is part of a special series designed to help the Congress identify options that could be used to reduce federal spending or increase revenues. Where available, budgetary savings estimates provided by the Congressional Budget Office (CBO) or the Joint Committee on Taxation (JCT) are presented for each of the options.

This report contains over 120 options. Thirty-two options are new to this year's report; the remainder are updated versions of options that appeared in our April 1999 report.¹ All of these options are based on key findings and issues developed in past GAO audits and evaluations. Each option represents only one way to address in a budgetary context some of the significant problems identified in our reviews of federal programs and activities. Selecting one possible option was necessary in order to obtain a budgetary savings estimate. The Congress has many available options for cutting spending or raising revenue, and inclusion of a specific option in this report does not mean we endorse it, nor does it mean that the option presented is the only or most feasible approach to a particular issue. In addition, this report is not intended to provide a comprehensive framework

¹*Budget Issues: Budgetary Implications of Selected GAO Work for Fiscal Year 2000* (GAO/OCG-99-26, Apr. 16, 1999).

for addressing the major fiscal challenges facing the nation arising from such critical programs as Social Security and Medicare.²

This report is divided into four appendixes. Appendix I discusses the conventions used to estimate savings and revenue gains. Appendix II provides for congressional consideration an analytical framework in which to consider cost savings or revenue increases. This framework provides one set of criteria that may be used to assess goals, scope, and approaches for delivering federal programs. It is organized around the following three broad themes:

- **Reassess objectives**—reconsider whether to terminate or revise services and programs provided;
- **Redefine beneficiaries**—reconsider who pays for or benefits from a particular program; and
- **Improve efficiency**—reconsider how a program or service is provided.

Appendix III presents narrative descriptions of the options including available estimates of budgetary savings as determined by CBO or JCT. This appendix presents spending options first—organized by budget function—and then additional receipt options. Each option also includes a listing of relevant GAO reports and testimonies and a GAO contact.

Lastly, appendix IV lists options from our previous report that were not updated for this year's volume based on our review of congressional and agency actions. Sixteen options from our April 1999 report are not included in this report because (1) the option was fully or substantially acted upon by the Congress or the cognizant agency, (2) the option was no longer appropriate due to environmental changes or the aging of our work, or (3) the Congress or the cognizant agency chose a different approach to address the issues discussed in the option. We will continue to monitor many of these options to assess whether underlying issues are ultimately resolved based on the actions taken.

²For discussion of the fiscal and program issues facing Social Security and Medicare, see *Medicare Reform: Leading Proposals Lay Groundwork, While Design Decisions Lie Ahead* (GAO/T-HEHS/AIMD-00-103, Feb. 24, 2000), *Medicare: Program Reform and Modernization Are Needed But Entail Considerable Challenges* (GAO/T-HEHS/AIMD-00-77, Feb. 8, 2000), *Social Security Reform: Information on the Archer-Shaw Proposal* (GAO/AIMD/HEHS-00-56, Jan. 19, 2000), *Social Security: The President's Proposal* (GAO/T-HEHS/AIMD-00-43, Nov. 9, 1999), and *Social Security: Evaluating Reform Proposals* (GAO/AIMD/HEHS-00-29, Oct. 29, 1999).

Although we derived the budget options in this report from our existing body of work, there are similarities between these options and other proposals. For example, some options contained in this report have also been included in the current or past editions of CBO's annual spending and revenue options publication,³ House and Senate Budget Resolution proposals, and the President's annual budget submission.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Appropriations committees and relevant subcommittees; the Chairmen and Ranking Minority Members of the Senate Committee on Governmental Affairs and the Committee on Finance; and to the Chairmen and Ranking Minority Members of the House Committee on Government Reform and the Committee on Ways and Means. Copies will be made available to others upon request.

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

A handwritten signature in black ink, appearing to read "D M Walker", with a long horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States

³Congressional Budget Office, *Budget Options* (March 2000).

Explanation of Conventions Used to Estimate Savings and Revenue Gains

CBO and JCT provided cost estimates for many of our options. As in our April 1999 report, a brief explanation is included with the option if specific estimates could not be provided. Where estimates are provided, the following conventions were followed.¹

- For revenue estimates, the increase in collections reflects what would occur, over and above amounts due under current law, if the option were enacted.
- For direct spending programs, estimated savings show the difference between what the program would cost under the CBO baseline, which assumes continuation of current law, and what it would cost after the suggested modification.
- For discretionary spending programs the estimates show savings compared to the fiscal year 2000 appropriations in nominal terms (held constant for the next 10 years).

Specific assumptions made in estimating individual options are noted in the option narratives in appendix III.

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

Finally, some of the options could not be scored by CBO or JCT. Several of these involve management improvements that we believe can contribute to reduced spending or increased revenues but whose effects are too uncertain to be estimated. A few options are not estimated because they concern future choices about spending that is not currently in the baseline used to calculate annual spending and revenue. In other cases, savings are likely to come in years beyond the 10-year estimation period that CBO uses.

¹For a complete discussion of the uses and caveats of the CBO estimates, see CBO's report, *Budget Options* (March 2000).

A Framework for Considering Cost Savings and Revenue Increases

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

Our framework consists of three broad themes: reassess objectives, redefine beneficiaries, and improve efficiency. These three fundamental strategies are based on an implicit set of decision rules that encourage decisionmakers to think systematically, within an ever-changing environment, about

- what services the government provides or should continue to provide,
- for whom these services are or should be provided, and
- how services are or should be provided.

By using a policy-oriented framework such as this, choices can be made more clearly and the results become more defensible.

Reassess Objectives

The first theme within our framework focuses on the objectives of federal programs or services. Our premise is that periodically reconsidering a program's original purpose, the conditions under which it continues to operate, and its cost-effectiveness is appropriate. Our work suggests three decision rules that illustrate this strategy.

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

For example, the Comanche helicopter is intended to replace the Vietnam-era scout and attack helicopters that the Army considers incapable of meeting its existing or future requirements. However, real and probable

development cost increases, uncertain operating and support cost savings, questions about the role of the Comanche compared to other more affordable Army helicopters, deferral of the production decision, and current defense budgets raise questions about the cost/benefits of this program. Figure 1 provides a list of the options contained in this report that fall within the Reassess Objectives theme.

Figure 1: Reassess Objectives (Budget Function)

- Reduce the Number of Carrier Battle Group Expansions and Upgrades (050)
- Limit Commitment to Production of the F-22 Fighter Until Testing is Complete (050)
- Eliminate Excess Force Structure in the Army National Guard's Combat Forces (050)
- Reassess the Army's Comanche Helicopter Program (050)
- Eliminate or Retask Dedicated Continental Air Defense Units (050)
- Reassess the Army's Crusader Program (050)
- Reassess the Need for the Selective Service System (050)
- Close the Uniformed Services University of the Health Sciences (050)
- Rightsize DOD's Health System for Active Duty Care (050)
- Eliminate U.S. Contributions to Administrative Costs in Rogue States (150)
- Continue Oversight of the International Space Station and Related Support Systems (250)
- Corporatize or Divest Power Marketing Administrations (270)
- Reassess the Department of Energy's Strategic Computing Initiative (270)
- Rescind Clean Coal Technology Funds (270)
- Implement Market-Based Incentives for Use of Federal Lands and Natural Resources (300)
- Terminate or Significantly Reduce the Department of Agriculture's Market Access Program (350)
- Eliminate the Pulsed Fast Neutron Analysis Inspection System (400)
- Redefine Amtrak's Mission to Improve Financial Performance and Reduce Federal Subsidies (400)
- Reassess the Coast Guard Deepwater Project (400)
- Eliminate Cargo Preference Laws (400)
- Reassess Medicare Incentive Payments in Health Care Shortage Areas (570)
- Develop Comprehensive Return-to-Work Strategies for People With Disabilities (600)
- Revise Benefit Payments Under the Federal Employees' Compensation Act (600)
- Revise VA's Disability Ratings Schedule to Better Reflect Veterans' Economic Losses (700)
- Develop Criteria for Determining When Weed and Seed Sites Are Self-Sustaining (750)
- Open the Government Printing Office to Competition (800)
- Repeal the Davis-Bacon Act (800)
- Tax Interest Earned on Life Insurance Policies and Deferred Annuities (Receipt)
- Further Limit the Deductibility of Home Equity Loan Interest (Receipt)

Redefine Beneficiaries

The second theme within our framework focuses on the intended beneficiaries for federal programs or services. The Congress originally defines the intended audience for any program or service based on some perception of eligibility and/or need. To better reflect and target

increasingly limited resources, these definitions can be periodically reviewed and revised. Our body of work suggests four decision rules that illustrate this strategy.

- Formulas for a variety of grant programs to state and local governments can be revised to better reflect the fiscal capacity of the recipient jurisdiction. This strategy could reduce overall funding demands while simultaneously redistributing available grant funds so that the most needy receive the same or increased levels of support.
- Eligibility rules can be revised, without altering the objectives of the program or service.
- Fees can be targeted to individuals, groups, or industries that directly benefit from federal programs. Also, existing charges can be increased so that the direct beneficiaries share a greater portion of a program's cost.
- Tax preferences can be narrowed or eliminated by revising eligibility criteria or limiting the maximum amount of preference allowable.

For example, at a time when federal domestic discretionary resources are constrained, better targeting of grant formulas offers a strategy to bring down federal outlays by concentrating reductions on wealthier localities with fewer needs and greater capacity to absorb cuts. Federal grant formulas could be redesigned to lower federal costs by disproportionately reducing federal funds to states and localities with the strongest tax bases and fewer needs, as shown in our option on formula grants. Figure 2 provides a list of the options contained in this report that fall within the Redefine Beneficiaries theme.

Appendix II
A Framework for Considering Cost Savings
and Revenue Increases

Figure 2: Redefine Beneficiaries (Budget Function)

- Require Copayments for Care in Military Treatment Facilities (050)
- Reduce the Risk Assumed by Export-Import Bank Programs (150)
- Recover Power Marketing Administrations' Costs (270)
- Recover Federal Investment in Successfully Commercialized Technologies (270)
- Reduce Department of Energy's Contractors' Separation Benefits (270)
- Exempt Certain Department of Energy Operating Contractors from State Taxes (270)
- Increase Nuclear Waste Disposal Fees (270)
- Reduce Federal Outlays for Natural Resources Revenue Sharing (300)
- Revise the Mining Law of 1872 (300)
- Coordinate Federal Policies for Subsidizing Water for Agriculture and Rural Uses (300)
- Recapture Interest on Rural Housing Loans (370)
- Require Self-Financing of Mission Oversight by Fannie Mae and Freddie Mac (370)
- Increase Aircraft Registration Fees to Recover Actual Costs (400)
- Limit Eligibility for Federal Emergency Management Agency Public Assistance (450)
- Eliminate Flood Insurance for Certain Repeatedly Flooded Properties (450)
- Eliminate the Flood Insurance Subsidy on Properties That Suffer the Greatest Flood Loss (450)
- Implement Risk-Based Meat and Poultry Inspections (550)
- Improve Fairness of Medicaid Matching Formula (550)
- Charge Beneficiaries for Food Inspection Costs (550)
- Prevent States from Using Illusory Approaches to Shift Medicaid Program Costs to the Federal Government (550)
- Design New Payment System so that Medicare Does Not Overpay for Home Health Care (570)
- Share the Savings From Bond Refundings (600)
- Implement a Service Fee for Successful Non-Temporary Assistance for Needy Families (TANF) Child Support Enforcement Collections (600)
- Improve Reporting of DOD Reserve Payroll Data to State Unemployment Insurance Programs (600)
- Discontinue Veterans' Disability Compensation for Non-Service Connected Diseases (700)
- Increase Cost Sharing for Veterans' Long-Term Care (700)
- Limit Enrollment in Veterans Health Care System (700)
- Reduce Department of Veterans Affairs Outpatient Pharmacy Costs (700)
- Prevent Delinquent Taxpayers from Benefiting from Federal Programs (800)
- Adjust Federal Grant Matching Requirements (800)
- Target Funding Reductions in Formula Grant Programs (800)
- Limit the Tax Exemption for Employer-Paid Health Insurance (Receipt)
- Impose Pollution Fees and Taxes (Receipt)
- Repeal the Partial Exemption for Alcohol Fuels from Excise Taxes on Motor Fuels (Receipt)
- Index Excise Tax Bases for Inflation (Receipt)
- Increase Highway User Fees on Heavy Trucks (Receipt)

Improve Efficiency

The third theme within our framework addresses how the program or service is delivered. This strategy suggests that focusing on the approach or delivery method can significantly reduce spending or increase collections. Our body of work suggests five decision rules that illustrate this strategy.

Appendix II
A Framework for Considering Cost Savings
and Revenue Increases

- Reorganizing and consolidating programs or activities with similar objectives and audiences can eliminate duplication and improve operational efficiency.
- Using reengineering, benchmarking, streamlining, and other process change techniques can reduce the cost of delivering services and programs.
- Using performance measurement and generally improving the accuracy of available program information can promote accountability and effectiveness and reduce errors.
- Improving collection methods and ensuring that all revenues and debts owed are collected can increase federal revenues.
- Establishing market-based prices can help the government recover the cost of providing services while encouraging the best use of the government's resources.

As an illustration of this theme, the federal government collects fees from private interests for the sale or use of natural resources on federal lands. A percentage of these fees is, under certain conditions, allocated to states and counties as an offset for tax revenues not received from the federal lands. Federal land management agencies typically do not deduct the full costs of their programs from the gross receipts that the programs generate before sharing the receipts with states and counties. Sharing federal receipts on a gross, rather than a net, basis often reduces the federal government's share of the revenues. Changing revenue sharing from a gross-receipt to a net-receipt basis would reduce net federal outlays and produce savings to the government. Figure 3 provides a list of the options contained in this report that fall within the Improve Efficiency theme.

Appendix II
A Framework for Considering Cost Savings
and Revenue Increases

Figure 3: Improve Efficiency (Budget Function)

- Consolidate Military Exchange Stores (050)
- Assign More Air Force Bombers to Reserve Components (050)
- Reorganize C-130 and KC-135 Reserve Squadrons (050)
- Eliminate Unneeded Department of Navy Redistribution Sites (050)
- Acquire Conventionally Powered Aircraft Carriers (050)
- Reassess Defense Guided Weapons Program (050)
- Improve the Administration of Defense Health Care (050)
- Continue Defense Infrastructure Reform (050)
- Improve State Department Business Processes (150)
- Streamline U.S. Overseas Presence (150)
- Reduce the Costs of the Rural Utilities Service's Electricity and Telecommunications Loan Programs (270)
- Consolidate or Eliminate Department of Energy Facilities (270)
- Reduce Hanford Tank Waste Cleanup Costs (270)
- Improve Oversight of Superfund Administrative Expenditures to Better Identify Opportunities for Cost Savings (300)
- Better Control Spending for Superfund Cleanup Contractors (300)
- Identify and Recover Excess Funds in Superfund Contracts (300)
- Reassess Federal Land Management Agencies Functions and Programs (300)
- Increase Flexibility in Preparing Health Assessments for Superfund Sites (300)
- Pursue Cost Effective Alternatives to NOAA's Research/Survey Fleet (300)
- Improve Hazardous Waste Cleanup Cost Recovery (300)
- Increase Federal Revenues Through Water Transfers (300)
- Strengthen Controls Over Crop Insurance Claims (350)
- Consolidate Common Administrative Functions at the Department of Agriculture (350)
- Further Consolidate Farm Service Agency County Offices (350)
- Reduce FHA's Insurance Coverage (370)
- Improve Department of Transportation's Oversight of its University Research (400)
- Apply Cost-Benefit Analysis to Replacement Plans for Airport Surveillance Radars (400)
- Close, Consolidate, or Privatize Some Coast Guard Facilities (400)

Appendix II
A Framework for Considering Cost Savings
and Revenue Increases

- Improve FAA Oversight of General Aviation Airport Land and Revenue (400)
- Consolidate Student Aid Programs (500)
- Create a Single Federal Agency to Administer a Unified Food Inspection System (550)
- Convert Public Health Service Commissioned Corps Officers to Civilian Status (550)
- Control Prescription Drug and Medicaid Fraud (550)
- Evaluate the Reasonableness of Medicare Payments for New Technology Procedures (570)
- Adjust Medicare Payment Allowances to Reflect Changing Technology, Costs, and Market Prices (570)
- Increase Medicare Program Safeguard Funding (570)
- Continue to Reduce Excess Payments to Medicare+Choice Health Plans (570)
- Modify the Skilled Nursing Facility Payment Method to Ensure Appropriate Payments (570)
- Improve Social Security Benefit Payment Controls (600)
- Simplify Supplemental Security Income Recipient Living Arrangements (600)
- Reduce Federal Funding Participation Rate for Automated Child Support Enforcement Systems (600)
- Reassess Unneeded Health Care Assets Within the Department of Veterans Affairs (700)
- Consolidate Asset Forfeiture Programs at the Departments of Justice and Treasury (750)
- Complete Criminal Alien Deportation Proceedings to Avoid Unneeded Detention Costs (750)
- Eliminate the 1-Dollar Note (800)
- Eliminate Pay Increases After Separation in Calculating Lump-Sum Annual Leave Payments (800)
- Increase Fee Revenue from Federal Reserve Operations (800)
- Recognize the Costs Up-front of Long-Term Space Acquisition (800)
- Require Corporate Tax Document Matching (Receipt)
- Improve Administration of the Tax Deduction for Real Estate Taxes (Receipt)
- Increase Collection of Returns Filed by U.S. Citizens Living Abroad (Receipt)
- Increase the Use of Seizure Authority to Collect Delinquent Taxes (Receipt)
- Increase Collection of Self-employment Taxes (Receipt)
- Increase the Use of Electronic Funds Transfer for Installment Tax Payments (Receipt)
- Shift Gasoline Excise Tax Collection to the Refining Level (Receipt)
- Improve Independent Contractor Tax Compliance (Receipt)

Options for Increased Savings and Revenue Gains

This appendix describes each of GAO's options for increased savings and revenue gains organized by budget function and receipts. For each option we provide, when relevant, information about the authorizing committee, appropriations subcommittee, primary agency, budget account, spending type, budget subfunction, and framework theme. We then provide a summary and description of budgetary implications, followed by an estimate (when available) of savings or revenue increases, relevant GAO reports, and a GAO contact.

050 National Defense

Reassess Defense's Guided Weapons Program
Limit Commitment to Production of the F-22 Fighter Until Testing Is Complete
Reassess the Army's Comanche Helicopter Program
Reassess the Army's Crusader Program
Acquire Conventionally Powered Aircraft Carriers
Reorganize C-130 and KC-135 Reserve Squadrons
Eliminate or Retask Dedicated Continental Air Defense Units
Reduce the Number of Carrier Battle Group Expansions and Upgrades
Assign More Air Force Bombers to Reserve Components
Eliminate Excess Force Structure in the Army National Guard's Combat Forces
Reassess the Need for the Selective Service System
Eliminate Unneeded Department of Navy Redistribution Sites
Rightsize DOD's Health System for Active Duty Care
Require Copayments for Care in Military Treatment Facilities
Improve the Administration of Defense Health Care
Close the Uniformed Services University of the Health Sciences
Consolidate Military Exchange Stores
Continue Defense Infrastructure Reform

Reassess Defense's Guided Weapons Program

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Account	Missile Procurement, Air Force (57-3020) Weapons Procurement, Navy (17-1507) Missile Procurement, Army (21-2032)
Spending type	Discretionary
Budget subfunction	051/Department of Defense–Military
Framework theme	Improve efficiency

Following the Persian Gulf War, the Department of Defense (DOD) decided to improve and increase its arsenal of guided weapons. Improvements were to increase target destruction while decreasing the number of weapons used, unwanted collateral damage, and exposure of aircraft to enemy defenses. In the early 1990s, the services initiated a number of programs to upgrade existing guided weapons and produce new ones. Planned quantities of these weapons reflected Cold War threats and added to an existing inventory that could already meet current national security objectives for deep attack missions.

According to DOD's fiscal year 2000 Future Years Defense Program, planned annual spending for guided weapons will increase from about \$1.2 billion in fiscal year 2000 to more than \$1.5 billion in fiscal year 2005. Substantial funding increases already occurred between fiscal year 1998 and fiscal year 2000. DOD is not, however, providing effective management oversight and coordination over the services' development and procurement programs. There is no central oversight body to examine guided weapons programs in the aggregate and to assess the types and numbers of weapons needed. Consequently, there is widespread overlap and duplication of guided weapons types and capabilities and questionable quantities are being procured for each target class.

The large funding increases needed to support the services' plans may not be cost effective considering widespread overlap and duplication of weapons types and capabilities, questions regarding quantity requirements, existing capabilities and inventory levels, and other high priority defense requirements competing for funding. If the Congress directed DOD to maintain annual guided weapons funding at the already increased fiscal

**Appendix III
Options for Increased Savings and Revenue
Gains**

year 2000 level of \$1.212 billion and adjust only for inflation, DOD could still achieve substantial improvements in its weapon capabilities with associated savings.

Five-Year Savings					
Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	228	132	268	165	212
Outlays	42	93	167	183	202

Source: Congressional Budget Office.

Related GAO Products

Defense Acquisitions: Reduced Operational Effectiveness of Joint Standoff Weapon (GAO/NSIAD-99-137, Aug. 31, 1999).

Defense Acquisitions: Reduced Threat Not Reflected in Antiarmor Weapon Acquisitions (GAO/NSIAD-99-105, July 22, 1999).

Weapons Acquisitions: Guided Weapon Plans Need to Be Reassessed (GAO/NSIAD-99-32, Dec. 9, 1998).

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

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

Weapons Acquisition: Better Use of Limited DOD Acquisition Funding Would Reduce Costs (GAO/NSIAD-97-23, Feb. 13, 1997).

Combat Air Power: Joint Mission Assessments Needed Before Making Program and Budget Decisions (GAO/NSIAD-96-177, Sept. 20, 1996).

Weapons Acquisition: Precision Guided Munitions in Inventory, Production, and Development (GAO/NSIAD-95-95, June 23, 1995).

**Appendix III
Options for Increased Savings and Revenue
Gains**

GAO Contact

Louis J. Rodrigues, (202) 512-4841

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

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

Engineering and manufacturing development of the F-22 began in 1991 and flight testing began in September 1997. Concurrent with continuation of flight tests, the Air Force is procuring two production representative test vehicles with funding provided in fiscal years 1998 and 1999. The Air Force is also procuring six additional production representative test vehicles with funding provided in fiscal year 2000. Low-rate initial production is planned to begin in fiscal year 2001 (10 aircraft), and continue in fiscal year 2002 (16 aircraft) and fiscal year 2003 (24 aircraft). Full-rate production is planned to begin in fiscal year 2004 and continue in fiscal year 2005 at the rate of 36 aircraft per year.

In several reports over the last 5 years, GAO has concluded that DOD should minimize commitments to F-22 production until completion of Initial Operational Test and Evaluation. GAO recommended that the Secretary of Defense limit low-rate initial production quantities to about six to eight aircraft a year, which was the production rate that could be supported by the first set of production tooling. DOD has reduced the planned acceleration of production rates, but progress of the flight test program and delivery of flight test aircraft are now expected to be slower than was planned when DOD last changed the production plans.

In June 1999, the Air Force acknowledged continued delays in the delivery of most of the flight test aircraft because of continuing wing delivery problems. As a result of this further delay, the Air Force now has 29 fewer flight test months available to complete the flight test program by August 2002 and has lost over 626 flight test hours that could have been flown if these aircraft were available for flight testing as scheduled in 1997. Although the plan for aircraft delivery has been delayed, the completion of the development program has not been extended. Flight test time is

essential for the development program to test and prove specific features of the aircraft, as well as to reduce the risk to the government prior to beginning and accelerating aircraft production.

To ensure that F-22 ground and flight test activities are adequate to measure and predict F-22 performance prior to approval of a low-rate initial production decision, both the authorization and appropriations acts for fiscal year 2000 established further congressional direction regarding the F-22. The authorization act required that, before beginning low-rate initial production, the Secretary of Defense must certify that the test plan is adequate for determining F-22 operational effectiveness and suitability; and that the development program can be executed within the cost limit. The appropriations act, among other provisions affecting the F-22 development program, did not approve the beginning of F-22 low-rate initial production but approved funding for acquisition of additional flight-test aircraft with research, development, test and evaluation funding. The appropriations act restricted award of a fully funded contract to begin low-rate initial production until (1) the first flight of an F-22 incorporating block 3 avionics software has been conducted, (2) the Secretary of Defense certifies to the congressional defense committees that criteria identified in the act for award of low-rate initial production have been met, and (3) the Director of Operational Test and Evaluation reports on the adequacy of testing to date to measure and predict performance of F-22 avionics systems, stealth characteristics, and weapons delivery systems.

Buying production articles before they can be adequately tested can result in buying systems that require significant, and sometimes costly, modifications to achieve satisfactory performance; accepting less capable systems than planned; and deploying substandard systems to combat forces. Also, deferring a substantial increase in production rates until completion of Initial Operational Test and Evaluation will reduce the amount of needed production funding committed, which may be an attractive option to maintain the aircraft procurement budget and overall defense budget within congressional targets. Conversely, lower production rates could increase average procurement cost over the life of the program and, if the Air Force maintains its current plan to procure 339 production aircraft, lead to difficulties in completing the production program within congressional limitations on production costs.

The F-22, along with the F/A-18E/F and the Joint Strike Fighter, constitute a major commitment by DOD to modernize tactical fighter and ground attack aircraft. Collectively, DOD's planned investment in these aircraft, estimated

by the Congressional Budget Office to exceed \$350 billion, is likely to be significantly greater than probable future budgets. Moreover, questions have been raised about the need for, and cost-benefit of, these systems given likely threats. The traditional practices of approving all requested programs and then reducing procurement quantities within each program lowers acquisition costs but exacerbates the problem of aging equipment and associated operating and support costs. The Congress and DOD will need to carefully consider tactical aircraft investment options to ensure balance among bona fide national security needs based on realistic threat assessments, the desires of individual services, and what can be afforded given likely future budgets.

GAO continues to believe that low-rate initial production should be limited to about 6 to 8 aircraft a year in order to avoid acceleration of production until Initial Operational Test and Evaluation is complete. If the Congress were to restrict funding to six aircraft for fiscal year 2001 and eight aircraft for 2002 and 2003, and then proceed with the planned acceleration of production to 10 aircraft in fiscal year 2004 and 16 aircraft in 2005, the following budget savings could be achieved during the next 5 years.

Five-Year Savings					
Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	964	1,338	2,336	1,951	98
Outlays	140	575	1,825	2,255	1,924

Source: Congressional Budget Office.

Related GAO Products

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

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

Budget Issues: Budgetary Implications of Selected GAO Work for Fiscal Year 2000 (GAO/OCG-99-26, Apr. 16, 1999).

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

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

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

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

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

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

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

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

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

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

Reassess the Army's Comanche Helicopter Program

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

In 1983, the Army began the Comanche helicopter program with the intent of replacing the Vietnam-era scout helicopter. However, what started off as a replacement for Vietnam-era helicopters has changed over time to a high-technology attack and reconnaissance helicopter. Since 1983, the program has been restructured five times and is still in development. The first four restructurings addressed concerns over affordability and changing requirements and led to reduced planned procurement quantities, delayed development and production decisions, and increased unit costs. Although the Army touts the Comanche as the quarterback of the digital battlefield—the centerpiece of its aviation modernization strategy—questions remain over the need for the program, in light of the capabilities of other equipment in the Army's aviation arsenal, and its affordability.

Some defense observers contend that unmanned aerial reconnaissance vehicles promise to enhance the fighting potential of the battlefield commander by providing immediate information about the disposition of enemy troop positions. A DOD-directed study to define the most effective way to link the Comanche with this emerging capability is still underway. Although light attack missions are part of the Army's plan for the Comanche, its lethality is now expected to rival or surpass that of the Apache—the Army's premiere attack helicopter. In addition, as the Army reduces its total helicopter fleet, it plans to increase the combat capabilities of the remaining fleet. For example, the Army is arming its scout helicopter, the Kiowa, and modifying 227 basic model Apaches with the Longbow system, which includes a fire control radar and a Hellfire missile. These actions, collectively, tend to blur the distinction in roles among the Army's helicopter fleet.

As the Army's concept for the Comanche grew over time, overall program costs have also grown. Total program cost is estimated at approximately \$48 billion, with an estimated program unit cost of about \$37 million as of April 1999. Other unresolved technical risks indicate that future cost growth is likely to increase. As development and production costs increase, the Comanche's share of the Army's overall aviation budget also increases. For example, the Comanche's share of the total projected Army aviation budget of \$3.3 billion for fiscal year 2008 is expected to be about 64 percent, when its annual production costs would be over \$2 billion. The Army's most recent aviation modernization plan recognizes that because of funding constraints, some modernization requirements must be traded off. As a result, older helicopters will have to be retained longer than originally planned, some helicopter upgrades will be forgone, and lower quantities of some helicopters will be procured.

Given real and probable development cost increases, questions about the role of the Comanche compared to other affordable and capable Army helicopters, deferral of the production decision, and current Army aviation budgets, the Congress may wish to reassess the costs and benefits of continuing the Comanche helicopter program. If the Congress elected to terminate the program, the following savings would be achieved.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	182	427	566	771	750
Outlays	106	308	479	660	728

Source: Congressional Budget Office.

Related GAO Products

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

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

Appendix III
Options for Increased Savings and Revenue
Gains

Army Aviation: Modernization Strategy Needs To Be Reassessed
(GAO/NSIAD-95-9, Nov. 21, 1994).

Comanche Helicopter: Program Needs Reassessment Due To Increased
Unit Cost and Other Factors (GAO/NSIAD-92-204, May 27, 1992).

GAO Contact

Louis J. Rodrigues, (202) 512-4841

Reassess the Army's Crusader Program

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

The Army plans to invest over \$13 billion dollars to develop and procure the Crusader self-propelled howitzer and its resupply vehicle to be used by the Army's rapidly deployable and forward-deployed forces. The Crusader artillery system originated in the 1980s as part of a broader program to modernize the Army's armored forces. The system's five key performance requirements call for improved performance over the Paladin—the Army's existing self-propelled howitzer.

The Crusader program has experienced a number of problems that have delayed its development by 12 to 18 months, and a number of technical uncertainties remain. The system's weight has grown to over 100 tons, calling into question its deployability. Moreover, the Army Chief of Staff recently concluded that the Army needs to be able to respond more quickly to contingencies and that the forces of the future need to be more mobile and quickly deployable and require a much smaller logistics support structure. To accomplish these goals, the Army plans to transition from large and heavy armored systems to lighter, smaller, more fuel efficient, and more reliable systems with common chassis. This transition will require a substantial investment in new combat vehicles, which is not fully reflected in the Army's current out-year spending plans. To fund these new requirements, the Army will need to reduce its planned spending on traditional large and heavy armored systems, such as the Crusader Program, or make other funding trade-offs.

The Army has proposed changes to the Crusader artillery system to make it more affordable and relevant to the future warfighter. The new program is expected to reduce the planned procurement quantity, change the armor, and cut the system's weight to about 90 tons. Such changes, however, will

**Appendix III
Options for Increased Savings and Revenue
Gains**

likely reduce some of the Crusader's originally planned capabilities. Possible alternatives to the Crusader exist, such as upgraded Paladins, or the German PzH 2000 self-propelled howitzer. Both would improve the Army's current artillery capabilities.

Given the Crusader's high acquisition cost, deployability questions, uncertain capabilities, changing requirements, and the need to fund the transition that is occurring in combat vehicles, the Congress may wish to terminate this program. If the Congress elected to terminate the program, the following savings would be achieved.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	437	487	441	1,011	1,195
Outlays	253	394	371	500	703

Source: Congressional Budget Office.

Related GAO Products

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

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

GAO Contact

Louis J. Rodrigues, (202) 512-4841

Acquire Conventionally Powered Aircraft Carriers

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

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

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

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

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

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

In assessing design concepts for the next class of aircraft carriers designated as the CVX—and consistent with the CVX project objectives to reduce life cycle costs by 20 percent—GAO’s analysis indicates that national security requirements can be met at less cost with conventionally powered carriers rather than nuclear-powered carriers. If Congress chose to acquire conventionally powered carriers in the future instead of nuclear-powered carriers, the following savings per carrier could be achieved.

Five-Year Savings

Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	3,450	150	430	740	50
Outlays	250	600	830	760	700

Note: This savings estimate assumes that the planned purchase of a new carrier in 2001 and 2006 would be cancelled and replaced with a planned purchase in 2006 of a non-nuclear carrier.

Source: Congressional Budget Office.

Related GAO Products

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

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

Appendix III
Options for Increased Savings and Revenue
Gains

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

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

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

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

GAO Contact

Norman J. Rabkin, (202) 512-5140

Reorganize C-130 and KC-135 Reserve Squadrons

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

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

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

There are several alternatives that could be developed to redistribute existing reserve component C-130 and KC-135 aircraft into larger squadrons. Sufficient personnel could be recruited for the larger squadrons, and most locations' facilities could be inexpensively expanded to accommodate the unit sizes. Overall savings will depend on the

**Appendix III
Options for Increased Savings and Revenue
Gains**

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

Five-Year Savings					
Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	97	176	276	359	385
Outlays	87	166	263	348	379

Source: Congressional Budget Office.

Related GAO Product

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

GAO Contact

Norman J. Rabkin, (202) 512-5140

Eliminate or Retask Dedicated Continental Air Defense Units

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Accounts	Operation and Maintenance, Air National Guard (57-3840) Operation and Maintenance, Air Force (57-3400) National Guard Personnel, Air Force (57-3850)
Spending type	Discretionary
Budget subfunction	051/Department of Defense–Military
Framework theme	Reassess objectives

The continental air defense mission evolved during the Cold War to detect and intercept Soviet bombers attacking North America via the North Pole. The force that carries out that mission is within the North American Aerospace Defense Command (NORAD), which is a joint U.S. and Canadian command. At the beginning of fiscal year 1998, the force consisted of 150 primary aircraft (Air National Guard F-15 and F-16 aircraft in 10 dedicated units of 15 aircraft per unit, which stand alert for NORAD). The Air Force budgeted about \$333 million in fiscal year 1998 to operate and support the continental air defense force. During fiscal year 1999, the Air Force reduced the number of dedicated continental air defense units by 90 aircraft from 150 to 60. The Air Force budgeted \$194.6 million for these units in fiscal year 2000.

The states of the former Soviet Union do not pose a significant threat of a bomber attack on the continental United States. Further, internal problems within Russia and other former Soviet Union countries have extended the time it would take them to return to previous levels of military readiness and capabilities. Reflecting these changing realities, the Chairman of the Joint Chiefs of Staff determined in 1993 that because the United States no longer needed a large, dedicated air defense force, this force could be significantly reduced or eliminated.

Since the threat of a Soviet-style air attack against the United States has largely disappeared, the air defense force now focuses its activities on air sovereignty missions. These missions provide surveillance and control of

**Appendix III
Options for Increased Savings and Revenue
Gains**

territorial airspace, including activities such as assisting aircraft in distress or intercepting aircraft as part of antidrug smuggling efforts. However, active and reserve general-purpose and training forces could perform this mission because they (1) have comparable or better aircraft, (2) are located at or near existing air defense bases, and (3) have pilots who possess similar skills or who could acquire the necessary skills used by air defense and air sovereignty pilots. If the remaining four dedicated air defense units were eliminated or retasked, the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	131	269	277	284	292
Outlays	107	239	267	278	287

Source: Congressional Budget Office.

Related GAO Product

Continental Air Defense: A Dedicated Force Is No Longer Needed
(GAO/NSIAD-94-76, May 3, 1994).

GAO Contact

Norman J. Rabkin, (202) 512-5140

Reduce the Number of Carrier Battle Group Expansions and Upgrades

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	051/Department of Defense–Military
Framework theme	Reassess objectives

Aircraft carrier battle groups are the centerpiece of the Navy’s surface force and significantly influence the size, composition, and cost of the fleet. The annualized cost to acquire, operate, and support a single Navy carrier battle group is about \$2 billion (in fiscal year 2000 dollars) and is likely to increase as older components are replaced and modernized. The Navy has several costly ongoing carrier-related programs: a nuclear-powered Nimitz-class carrier, the Ronald Reagan (CVN-76), is being built and the Navy is scheduled to begin to build the last carrier of this class in fiscal year 2001; the formal design process for the next generation of carriers, called the CVX class, began in 1996; the lead ship of the 10-ship Nimitz-class began its 3-year refueling complex overhaul in 1998; AEGIS destroyers are being procured and the next generation of surface combatants is being designed; and carrier-based aircraft are expected to be replaced/upgraded by a new generation of strike fighters and mission support aircraft throughout the next decade.

GAO’s analysis indicates that there are opportunities to use less costly options to satisfy many of the carrier battle groups’ traditional roles without unreasonably increasing the risk that U.S. national security would be threatened. For example, one less costly option would be to rely more on increasingly capable surface combatants, such as cruisers, destroyers, or frigates, for overseas presence and crisis response. If the Congress chose to retire one aircraft carrier and one active air wing in 2001, the following savings could be achieved.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	1,410	110	60	910	930
Outlays	330	500	380	920	950

Note: This savings estimate assumes that the CVN-69 carrier would be decommissioned in 2001.

Source: Congressional Budget Office.

Related GAO Products

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

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

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

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

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

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

GAO Contact

Norman J. Rabkin, (202) 512-5140

Assign More Air Force Bombers to Reserve Components

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

Bombers currently in the force (B-2s, B-1Bs, and B-52Hs) were initially designed and procured by the Department of Defense (DOD) primarily to meet nuclear war-fighting requirements. Since the end of the Cold War, DOD has placed increased emphasis on the role of bombers in future conventional conflicts while reducing the number of bombers significantly from a total of about 360 in 1989 to a planned retention of 187 bombers through the early part of the next century. Senior DOD officials have said that DOD cannot afford all of the services' stated requirements, and difficult decisions must be made regarding which investment programs to cancel so that DOD can develop and implement a long-term, sustainable recapitalization plan.

The Air Force has 18 B-1Bs assigned to the Air National Guard—10 to the Kansas Air National Guard and 8 to the Georgia Air National Guard. No B-1Bs are currently assigned to Air Force Reserve units. Placing more B-1Bs in the reserve component (either the Air Force Reserve or the Air National Guard) could reduce the cost to operate the B-1B bomber force without adversely affecting day-to-day peacetime training or critical wartime missions or closing any bases. However, the availability of recruitable personnel in some locations limits where reserve component units can operate.

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

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

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

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	0	5	22	39	47
Outlays	0	2	12	28	41

Source: Congressional Budget Office.

Related GAO Products

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

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

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

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

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

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

Appendix III
Options for Increased Savings and Revenue
Gains

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

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

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

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

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

GAO Contact

Norman J. Rabkin, (202) 512-5140

Eliminate Excess Force Structure in the Army National Guard's Combat Forces

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

In March 1996, GAO reported that the Army National Guard's combat structure, with 42 combat brigades, exceeded projected requirements for two major regional conflicts, according to war planners and Department of Defense (DOD) and Army studies. Although the National Guard has state missions in addition to its federal role, RAND's 1995 study of the use of Guard forces for state missions concluded that even in a peak year such missions would not require a large portion of the Guard and therefore should not be used as a basis for sizing the Guard's force.

In GAO's report, GAO noted that the Army has a shortage of support troops for a two regional conflict strategy and was studying alternatives to redesign the Guard's combat structure to meet critical shortages that the Army identified in its support capabilities. GAO recommended that the Secretary of Defense validate the size and structure of all the Guard's combat forces and that the Secretary of the Army prepare and execute a plan to bring the size and structure in line with validated requirements. GAO further recommended that the Secretary of Defense consider eliminating Guard forces that exceed validated requirements. DOD's Commission on Roles and Missions had similar recommendations in its report.

In January 1997, GAO reported on the study to redesign the Guard's combat structure. GAO stated that the study developed an option that provides for the conversion of some Guard combat and supporting forces to fill needed, but unresourced, support requirements. However, neither this study nor other studies deal with the critical issues of validating the need for the remaining Guard combat structure or eliminating any excess forces. As a result, substantial Guard combat structure is left in place that has no valid war fighting mission. GAO recommended that the Secretary of Defense

direct that the Quadrennial Defense Review validate any requirement for Guard combat structure. GAO further recommended that once this validation is complete, the Secretary of Defense, in concert with the Secretary of the Army, eliminate any structure beyond validated requirements.

The Quadrennial Defense Review, which was issued in May 1997, called for reductions of 45,000 personnel from the Army reserve component. Reductions of 17,000 personnel in the Army National Guard and 3,000 personnel in the Army Reserve have already been completed. The Secretary of Defense deferred plans that would have cut another 25,000 personnel from the Army reserve component. Although the Guard has reduced its personnel by 17,000, it has not agreed to reduce its force structure. GAO believes that savings could be achieved by eliminating excess force structure. If the equivalent of one division were eliminated from the force structure, the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	117	243	251	259	267
Outlays	104	226	245	255	264

Note: Because the Army identified a shortage in its support forces, this option would retain all support personnel indirectly associated with the eliminated division.

Source: Congressional Budget Office.

Related GAO Products

Army National Guard: Planned Conversions Are A Positive Step, but Unvalidated Combat Forces Remain (GAO/NSIAD-97-55BR, Jan. 29, 1997).

Army National Guard: Validate Requirements for Combat Forces and Size Those Forces Accordingly (GAO/NSIAD-96-63, Mar. 14, 1996).

GAO Contact

Norman J. Rabkin, (202) 512-5140

Reassess the Need for the Selective Service System

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

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

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

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	12	24	24	24	24
Outlays	9	20	24	24	24

Source: Congressional Budget Office.

Related GAO Product

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

GAO Contact

Norman J. Rabkin, (202) 512-5140

Eliminate Unneeded Department of Navy Redistribution Sites

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Account	Operations and Maintenance, Navy (17-1804)
Spending type	Discretionary
Budget subfunction	051/Department of Defense–Military
Framework theme	Improve efficiency

GAO's broad-based reviews of various aspects of the Department of the Navy's financial management operations and its ability to meet the existing management and reporting requirements¹ have identified numerous deficiencies, some of which can have significant budgetary implications. For example, in 1996 GAO reported that because of inadequate systems, Navy item managers did not have sufficient visibility over \$5.7 billion in operating materials and supplies on ships and at 17 Navy redistribution sites. These 17 sites, which contained, almost half of the excess items, were often located in the same general area as other DOD suppliers. Because about \$883 million, or 15 percent of this inventory, was excess to current operating allowances or needs, and because the Navy ordered or purchased items that were already on hand in excess quantities, the Navy incurred unnecessary costs of approximately \$27 million in the first half of fiscal year 1995.

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

¹The Chief Financial Officers Act of 1990, as amended, requires that each agency chief financial officer (CFO) develop an integrated agency accounting and financial management system that complies with applicable principles and standards and provides for complete, reliable, consistent, and timely information that is responsive to the agency's financial information needs. The act also specifies that each agency CFO should direct, manage, and provide policy guidance and oversight of asset management systems, including inventory management and control.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	3	3	3	3	3
Outlays	3	3	3	3	3

Source: Congressional Budget Office.

Related GAO Products

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

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

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

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

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

GAO Contact

Lisa G. Jacobson, (202) 512-9542

Rightsize DOD's Health System for Active Duty Care

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

DOD's \$16 billion dollar medical system was established to ensure that active duty members receive health care for force readiness purposes, and such beneficiaries once predominated in the system. Today, however, military retirees and active duty dependents outnumber active duty members and their respective families among the system's 8.2 million beneficiaries, and the relative number of retirees and dependents in the system will likely increase in coming years. Accordingly, the system's readiness mission may be competing for scarce dollars and medical staff with, and giving way to, an emerging peacetime emphasis on treating elderly patients with more chronic health problems, including geriatric and cardiopulmonary problems.

Contributing to this shift in emphasis has been the substantial active duty downsizing that began with the ending of the cold war. Many bases that housed medical facilities were deemed unnecessary, but service rivalries and political differences made closures extremely difficult. As a result, the Congress convened independent commissions that recommended closing or reconfiguring hundreds of installations. DOD estimated that completing the actions would result in a 35 percent reduction in military and civilian personnel, from the 1990 level, and over \$5.5 billion dollars a year in operating costs. Meanwhile, overall medical personnel reductions have lagged behind due to service disagreements over targeted end-strength levels. The department and the services maintain that they need providers and support at their facilities not only for active duty personnel and active-duty dependents, but also for retirees and their dependents. The latter category of patients, they contend, provide vital training for military providers not normally available from the younger, healthier active duty force. Also, the department and the services are heavily committed to care for their retired comrades-in-arms even though such care is not required by

law and many of these retirees are eligible for care through the Department of Veterans Affairs health care system.

One option to rightsize DOD’s health system for active duty and dependent care is to totally refocus DOD’s health system on its basic readiness mission. Access would be restricted to active duty members; facilities and staff allocations not needed for that purpose would be eliminated; and treatment to military retirees and active duty dependents would be provided through the Federal Employees Health Benefits Plan (FEHBP). To ensure sufficient readiness training for military providers under the new system—and thus assure its ability to achieve its primary mission—DOD may need to develop closer affiliations with civilian hospitals, for example, for trauma center assignments, and with medical schools and universities much like the Department of Veterans Affairs has done. Also, offering retirees and active duty dependents FEHBP would, in effect, transfer health care costs from DOD to them in the form of premiums and co-payments. In exchange, however, such retirees and active duty dependents would enjoy greater care choices, lifelong uninterrupted health care reliability, and membership in one of the nation’s premier health care programs. Savings from significantly reduced facility operating costs and managed care contract cost avoidance would be applied to DOD’s share of retirees’ and active duty dependents’ FEHBP premiums.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	-240	-700	220	1,280	3,200
Outlays	-410	-1040	-440	740	2,700

Source: Congressional Budget Office.

Related GAO Products

Defense Health Care: Tri-Service Strategy Needed To Justify Medical Resources For Readiness And Peacetime Care (GAO/HEHS-00-10, Nov. 1, 1999).

Appendix III
Options for Increased Savings and Revenue
Gains

Medicare Subvention Demonstration: DOD Data Limitations May Require Adjustments And Raise Broader Concerns (GAO/HEHS-99-39, May 28, 1999).

Defense Health Care: Collaboration And Criteria Needed For Sizing Graduate Medical Education (GAO/HEHS-98-121, Apr. 29, 1998).

Defense Health Care: Limits To Older Retirees' Access To Care And Proposals For Change (GAO/T-HEHS-97-84, Feb. 27, 1997).

Military Retirees' Health Care: Costs And Other Implications Of Options To Enhance Older Retirees' Benefits (GAO/HEHS-97-134, June 20, 1997).

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

GAO Contact

Stephen P. Backhus, (202) 512-7101

Require Copayments for Care in Military Treatment Facilities

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Account	Defense Health Program (97-0130)
Spending type	Discretionary
Budget subfunction	051/Department of Defense–Military
Framework theme	Redefine beneficiaries

Numerous GAO reports and testimonies have documented the problems of controlling costs in the military health system. In particular, GAO has reported that care received by military beneficiaries in military hospitals and clinics is free. However, when care must be obtained through civilian providers, military beneficiaries share in the costs of the care they receive. This uneven system has led to confusion, uncertainty, and inequity among beneficiaries as to what their health care benefits are. Further, research has shown that free care leads to greater (and unnecessary) use and, therefore, greater costs.

The Department of Defense (DOD) managed health care system—TRICARE—is intended to make health care benefits uniform regardless of venue, but some cost sharing is still based on where patients receive their care. Under TRICARE, beneficiaries pay the same enrollment fees whether they are enrolled with a military or civilian primary care manager. However, subsequent cost-sharing—in the form of copays for visits—is still not required for care provided in military facilities but is required for care from civilian providers.

The Congress may wish to establish beneficiary cost-sharing requirements in military facilities that are similar to the cost sharing for care that beneficiaries receive from civilian providers. CBO estimates that such a change would result in the following savings.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	244	352	356	364	372
Outlays	206	328	349	360	369

Source: Congressional Budget Office.

Related GAO Products

Defense Health Care: Operational Difficulties and System Uncertainties Pose Continuing Challenges for TRICARE (GAO/T-HEHS-98-100, Feb. 26, 1998).

Military Retirees' Health Care: Costs and Other Implications of Options to Enhance Older Retirees' Benefits (GAO/HEHS-97-134, June 20, 1997).

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

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

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

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

GAO Contact

Stephen P. Backhus, (202) 512-7101

Improve the Administration of Defense Health Care

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Defense (Senate and House)
Primary agency	Department of Defense
Account	Defense Health Program (97-0130)
Spending type	Discretionary
Budget subfunction	051/Department of Defense–Military
Framework theme	Improve efficiency

Each of the three military departments (Army, Navy, and Air Force) operates its own health care system, providing medical care to active duty personnel, their dependents, retirees, and survivors of military personnel. To a large extent, these separate systems, which cost about \$35 million annually, perform many of the same administrative, management, and operational functions.

Since 1949 numerous studies have reviewed whether a central entity should be created within the Department of Defense (DOD) for the centralized management and administration of the three systems. Most of these studies encouraged some form of organizational consolidation. A Defense health agency would consolidate the three military medical systems into one centrally managed system, eliminating duplicate administrative, management, and operational functions. No specific budget estimate can be developed until numerous variables, such as the extent of consolidation and the impact on command and support structures, are determined.

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

Related GAO Products

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

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

Appendix III
Options for Increased Savings and Revenue
Gains

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

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

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

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

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

GAO Contact

Stephen P. Backhus, (202) 512-7101

Close the Uniformed Services University of the Health Sciences

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

With the end of the draft in 1972, the military services needed new ways to obtain active duty physicians. To address this need, Public Law 92-426 established two complementary programs; the Health Profession Scholarship Program and the Uniformed Services University of the Health Sciences (USUHS), a medical school operated by the Department of Defense (DOD).

Under the scholarship program, DOD pays tuition and fees plus a monthly stipend for students enrolled in civilian medical schools. In return, the students incur an obligation to serve a year of active duty for each year of benefits received, with a 2-year minimum obligation. Upon graduation, most scholarship program participants go on active duty and begin graduate medical education (GME) in military hospitals. Students at USUHS enter active military service as medical students, receive the pay and benefits of officers at the 0-1 level, and incur 7-year service obligations. Overall, USUHS graduates represent about 14 percent of military physicians on active duty.

In the 2-1/2 decades since its legislative establishment, proposals have been made to close USUHS. Those who propose closing the University assert that DOD's need for physicians can be met at a lower cost using physicians educated at civilian medical schools under the DOD scholarship program. USUHS is a more costly source of military physicians on a per graduate basis when DOD's and total federal costs are considered. With DOD education and retention costs of about \$3.3 million over the course of a physician's career, the cost of a University graduate is more than 2 times greater than the \$1.5 million cost for a scholarship program graduate. However, the annual costs of USUHS graduates (\$182,000) are comparable to scholarship graduates (\$181,000) when total federal costs are amortized

over the expected years of military service. USUHS graduates are expected to have longer military careers and the University receives less non-DOD federal support than civilian medical schools. USUHS graduates are expected to serve for about 18.5 years, on average, while scholarship program physicians serve for 9.8 years, on average.

Those who propose retaining the University assert that it is needed to provide a stable cadre of physicians trained to meet the unique demands of military medicine. USUHS provides a medical education that compares well with that of other U. S. medical schools. However, while USUHS graduates begin their military medical careers with more readiness training than their peers, the significance of the additional training is unclear.

In addition, to help meet standards required for accreditation as an academic institution, USUHS provides education and training for other health care and related professions and engages in research, consultation, and archival activities. While these activities do not directly contribute to the education of military physicians, they do involve USUHS faculty and staff, and University officials believe that DOD would continue to conduct these activities even if USUHS is closed. USUHS officials estimated the value of these activities to be about \$18.6 million.

Given the changes in operational scenarios and DOD's approach for delivering peacetime health care, new assessments of the military's physician needs and the means to acquire and retain physicians are in order. If DOD continues to need a cadre of experienced career physicians, alternative strategies such as an additional scholarship option with a longer service obligation (i.e. 2-years for each year of benefits received), could be considered as a potentially less expensive way to increase the length of selected military physicians' careers.

Although CBO agrees that reevaluating and redefining the University's role in defense health care education could result in savings, it cannot estimate savings for this option until a specific proposal is developed.

Related GAO Product

Military Physicians: DOD's Medical School and Scholarship Program (GAO/HEHS-95-244, Sept. 29, 1995).

GAO Contact

Stephen P. Backhus, (202) 512-7101

Consolidate Military Exchange Stores

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

Since 1968, studies by GAO, the Department of Defense (DOD), and others have concluded that financial benefits could be achieved through consolidation of military exchange stores into a single entity. The Office of the Secretary of Defense has proposed the integration of the Army/Air Force Exchange System (AAFES) with the Navy and Marine Corps exchange programs, and a task force commissioned to review this consolidation plan in 1996 concluded that a merger would result in annual recurring savings. The task force also noted that the stores' contribution to DOD's morale, welfare, and recreation program—a \$12 billion enterprise that provides service members, their dependents, and eligible civilians with an affordable source of goods and services like those available to civilian communities—would increase by \$3 billion annually.

In January 1997 DOD advised its congressional oversight committees that it planned to continue studying options for integrating exchange functions, under the joint direction of the military departments. DOD stated that a more rigorous analysis was needed before judgments could be made on the optimal organizational structure. In April 1998, DOD awarded a contract to study consolidation. The contractor's April 30, 1999, report presented three organizational options, (1) total consolidation, (2) integration of all support functions—such as shipping and receiving—with separate exchange front offices, and (3) maintenance of the status quo, with best commercial practices implemented at the exchanges. After reviewing the results, DOD directed further study of total consolidation and other options to integrate specific business functions common to all exchanges. DOD indicated that total consolidation would take 3 to 5 years to complete, require an investment of \$391 million over that period (although one-time savings from the liquidation of excess inventory was expected to offset this investment), and produce 5-year savings of over \$1 billion, based on annual

**Appendix III
Options for Increased Savings and Revenue
Gains**

recurring savings of about \$206 million. The National Defense Authorization Act for Fiscal Year 2000 directed the Department to develop a report, including a plan to implement the recommendations the Secretary determines will improve operational efficiency and enhance the exchange benefit. The report is due no later than March 31, 2000.

Another initiative is the Hybrid initiative, which DOD has been implementing since 1995. These BXMARTS—smaller versions of the larger stores, are operated by the exchanges and often located at bases scheduled for closure. The “hybrid” stores sell both hard goods normally found in a military exchange and the grocery-type goods associated with military commissaries. According to DOD officials, this initiative, which is based on a format started in Europe before 1995 where the services operated combined stores generally in remote cites, also could result in financial benefits, but DOD has not yet quantified these savings. As of mid February 2000, 3 hybrids are operating in the U.S., and a fourth one is waiting for DOD approval. There are about 14 stores located in Europe that are variations of the combined model; commissaries and the exchange service operate these small stores. Although directed to report to Congress on the process of establishing BXMARTS in December 1999, DOD will not complete its’ cost analysis and assessment of the initiative until March 2000.

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

Five-Year Savings					
Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	40	60	63	65	67
Outlays	31	57	61	63	64

Source: Congressional Budget Office.

Appendix III
Options for Increased Savings and Revenue
Gains

Related GAO Products

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

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

GAO Contact

David R. Warren, (202) 512-8412

Continue Defense Infrastructure Reform

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

Despite the Department of Defense’s (DOD) actions over the last 10-12 years to reduce infrastructure costs, billions of dollars are still wasted annually on inefficient and unneeded activities and facilities. While DOD has in recent years substantially downsized its force structure, it has not achieved commensurate reductions in operations and support costs. For example, for fiscal year 1998, DOD estimated that about \$147 billion, or 58 percent of its budget, was still needed for infrastructure requirements. Recognizing that it must make better use of its scarce resources, DOD announced the Defense Reform Initiative (DRI) in November 1997. Through this program, DOD hoped to create a revolution in business affairs, which would substantially streamline and improve the economy and efficiency of its business operations and streamline its operations. The resulting savings would be used to help DOD increase procurement funding from \$42 billion in fiscal year 1998 to \$60 billion in fiscal year 2001 in order to help modernize the warfighting forces.

A major thrust of the DRI was to reduce unneeded infrastructure, primarily through a number of initiatives that potentially could reduce the cost of DOD’s operations and support activities. For example, one DRI initiative involves the demolition and disposal of 80 million square feet of excess space at military facilities. Each of the military services has been given a demolition target, which they are expected to reach by the end of fiscal year 2003. Other initiatives include reducing the number of major Defense Information System Agency (DISA) data processing centers from 16 to 6; reducing the number of Defense Finance and Accounting Service (DFAS) operating locations from 19 to 11; closing unneeded research, development, and test facilities; and avoiding hundreds of millions of dollars in future capital expenditures by privatizing utility systems (electric, natural gas, water, and sewer) at military bases.

Overall, DOD's progress in reducing infrastructure is mixed. While it is generally on target to demolish 80 million square feet of excess space by 2003 and consolidate its DISA data processing centers, it has not yet completed a study on how to reduce the number of DFAS operating locations. Specifically, DFAS estimated that, based on its anticipated future workload, it would reduce its staff from over 21,000 to less than 17,000 people and have 34 percent excess capacity by the end of fiscal year 2003. Before DOD acted on this assessment, Section 914 of the Fiscal Year 1999 Strom Thurmond National Defense Authorization Act required the Secretary of Defense to submit to the Senate and House Armed Services Committees a strategic plan for improving the financial management operations at each DFAS operating location. As of December 1999, this plan was being reviewed by DOD's Comptroller and had not been issued. In the meantime, all potential consolidation efforts are on hold.

Closing unneeded test facilities has also been difficult. DOD's RDT&E infrastructure consists of 131 laboratories and test and evaluation centers that develop and test military technologies. Over the years, DOD has tried to reduce the size of its RDT&E infrastructure and has closed or expects to close 62 sites by 2001. In addition, DOD reduced its RDT&E personnel by about 40,000 between fiscal years 1990 and 1997, saving an estimated \$2.4 billion annually in personnel costs. DOD pointed out, however, that the estimate is somewhat inflated because many employees were replaced by on-site contractors who are conducting essentially the same tasks. Despite these reductions, the RDT&E infrastructure continues to be burdened by excess capacity. DOD recently estimated that excess capacity, in terms of square footage, is between 20 percent and 60 percent, depending on the military service and the method of estimation used.

Privatizing utilities has also proved to be more complicated and costly than anticipated and progress has been slow. Currently, 146 of DOD's utility systems are privately owned and operated, and 2,367 systems are being considered for privatization. Although exact costs are not known, DOD estimates that it could cost hundreds of millions of dollars to complete required feasibility and environmental studies and upgrade the facilities to make them attractive to private investors. By not privatizing, however, DOD faces large capital costs in the future (possibly in the billions) to repair the utility systems and ensure they continue to operate at an acceptable level. DOD sees privatization as a way to leverage private resources to finance these needed capital repairs. It also gets DOD out of a business for which it is not particularly suited.

Streamlining, consolidating, and possibly privatizing infrastructure activities can help DOD save significant amounts of operations and support money, which it hopes to apply to future weapon modernization needs. Savings for this option cannot be fully estimated until a comprehensive consolidation and downsizing plan is specified.

Related GAO Products

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

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

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

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

Major Management Challenges and Program Risks: Department of Defense (GAO/OCG-99-4, Jan. 1, 1999).

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

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

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

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

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

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

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

Appendix III
Options for Increased Savings and Revenue
Gains

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

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

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

GAO Contact

David R. Warren, (202) 512-8412

150 International
Affairs

Improve State Department Business Processes
Streamline U.S. Overseas Presence
Reduce the Risk Assumed by Export-Import Bank Programs
Eliminate U.S. Contributions to Administrative Costs in Rogue States

Improve State Department Business Processes

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

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

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

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

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

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

Related GAO Products

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

**Appendix III
Options for Increased Savings and Revenue
Gains**

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

GAO Contact

Benjamin F. Nelson, (202) 512-4128

Streamline U.S. Overseas Presence

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

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

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

**Appendix III
Options for Increased Savings and Revenue
Gains**

For several years, GAO has been encouraging actions to reevaluate overseas staffing requirements. In 1999, the Secretary of State established the Overseas Presence Advisory Panel to review how the United States carries out its activities overseas. In November 1999, the Panel recommended the formation of an interagency committee to review and streamline every overseas post. Although the Panel did not specify the amount of savings that could be achieved through streamlining posts, it expressed the belief that the savings would be substantial. If the Congress chose to reduce overseas staffing by 1 percent, either through domestic reallocation or elimination, the Congressional Budget Office estimates that the following savings could be achieved.

Five-Year Savings					
Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Option: Relocate overseas staffing domestically by 1 percent					
Savings from the 2000 funding level					
Budget authority	4	8	12	16	20
Outlays	3	7	10	14	18

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

Source: Congressional Budget Office.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Option: Eliminate overseas staffing by 1 percent					
Savings from the 2000 funding level					
Budget authority	7	14	21	28	35
Outlays	6	13	19	26	33

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

Source: Congressional Budget Office.

Related GAO Products

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

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

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

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

GAO Contact

Benjamin F. Nelson (202) 512-4128

Reduce the Risk Assumed by Export- Import Bank Programs

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Banking and Financial Services (House)
Appropriations subcommittees	Foreign Operations (Senate) Foreign Operations, Export Financing, and Related Programs (House)
Primary agency	U.S. Export-Import Bank
Account	Export-Import Bank Loans Program Account (83-0100)
Spending type	Discretionary
Budget subfunction	155/International financial programs
Framework theme	Redefine beneficiaries

The U.S. Export-Import Bank (Eximbank) was created to facilitate exports of U.S. goods and services by offering a wide range of financing at terms competitive with those of other governments' export financing agencies. Eximbank is to absorb risks that the private sector is unwilling or unable to assume. Higher-risk markets, such as the Newly Independent States of the Former Soviet Union, constitute a relatively small share of the Eximbank's total financing commitments yet absorb a relatively large share of its subsidy costs. From fiscal years 1994 to 1998, Eximbank used an average of about \$859 million of its credit subsidy appropriation to support an average of about \$12.2 billion in export financing commitments (loans, loan guarantees, and insurance). Eximbank's congressional mandate is to supplement, not compete with, private capital. Thus it provides financing in a wide variety of markets, including more markets in higher-risk categories than those of any of its major competitors.

The level and scope of the risks of the Eximbank's programs could be reduced by several means, such as placing a ceiling on the maximum subsidy rate allowed in Eximbank programs, reducing or eliminating program availability offered in high-risk markets, and offering less than 100-percent risk protection. These changes would have only a slight effect on the overall level of U.S. exports supported with Eximbank financing. However, these options raise several trade and foreign policy issues that decisionmakers would need to address before making any changes in the Eximbank's programs. Eximbank officials noted that these options could undermine U.S. government efforts to provide support in some higher-risk

markets, such as the Newly Independent States of the Former Soviet Union, that exhibit promising long-term potential.

The specific level of savings resulting from these program changes would be dependent on several factors, including the willingness of exporters and participating banks to absorb increased costs and risks, and the reaction of foreign export credit agencies. Based on 1998 transaction levels, CBO estimates that the following program subsidy savings could be achieved if Eximbank provided only short-term cover in higher-risk markets.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	125	125	125	125	125
Outlays	25	72	91	103	108

Source: Congressional Budget Office.

Related GAO Products

U.S. Export-Import Bank: Issues Raised by Recent Market Developments and Foreign Competition (GAO/T-NSIAD-99-23, Oct. 7, 1998).

Export-Import Bank: Key Factors in Considering Eximbank Reauthorization (GAO/T-NSIAD-97-215, July 17, 1997).

Export-Import Bank: Options for Achieving Possible Budget Reductions (GAO/NSIAD-97-7, Dec. 20, 1996).

Foreign Affairs: Perspectives on Foreign Affairs Programs and Structures (GAO/NSIAD-97-6, Nov. 8, 1996).

Export Finance: Comparative Analysis of U.S. and European Union Export Credit Agencies (GAO/GGD-96-1, Oct. 24, 1995).

Export Finance: The Role of the U.S. Export-Import Bank (GAO/GGD-93-39, Dec. 23, 1992).

**Appendix III
Options for Increased Savings and Revenue
Gains**

GAO Contact

Benjamin F. Nelson, (202) 512-4128

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

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

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

However, State does not withhold administrative expenditures associated with the operation of field offices in these countries. Consequently, a portion of the U.S. contribution still goes to states prohibited from receiving U.S. funds. GAO did not attempt to calculate the total amount that the United States contributes to all United Nations organizations for administrative expenses in rogue states. However, GAO estimates that the amount for one United Nations organization, the United Nations Development Program, to be about \$600,000. Based on this estimate, GAO believes that the total amount that the United States contributes to administrative costs in rogue states may exceed \$1 million.

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

Appendix III
Options for Increased Savings and Revenue
Gains

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

Related GAO Products

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

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

GAO Contact

Benjamin F. Nelson, (202) 512-4128

**250 Science, Space and
Technology**

Continue Oversight of the International Space Station and Related Support
Systems

Continue Oversight of the International Space Station and Related Support Systems

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

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

The Congress is well aware of the challenges NASA faces in developing and building the ISS—challenges that have already translated into schedule delays and higher program cost estimates to complete development. Although assembly of the station is well underway and congressional

support is substantial, the ISS warrants continued congressional oversight because the ISS will impose significant demands on future budgets and will require critical decisions on whether to develop new launch capabilities to support resupply activities. Opportunities for congressional oversight to ensure that NASA's other priorities are not sacrificed to primarily fund ISS operations will occur annually when the agency's budget is considered. For example, debate over alternative launch capabilities to the space shuttle is likely to start in January 2001 after test flights of the X-33 Reusable Launch Vehicle demonstrator are completed and data analyzed. Continued oversight will help to ensure that priorities are identified and funds are spent only where the greatest need exists. Because specific reduction options have not been proposed, CBO is unable to estimate a cost savings.

Related GAO Products

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

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

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

GAO Contact

Louis J. Rodrigues, (202) 512-4841

270 Energy

Corporatize or Divest Selected Power Marketing Administrations
Recover Power Marketing Administrations' Costs
Consolidate or Eliminate Department of Energy Facilities
Reduce Department of Energy's Contractors' Separation Benefits
Exempt Certain Department of Energy Operating Contractors From State
Taxes
Increase Nuclear Waste Disposal Fees
Recover Federal Investment in Successfully Commercialized Technologies
Reduce Hanford Tank Waste Cleanup Costs
Reassess the Department of Energy's Strategic Computing Initiative
Rescind Clean Coal Technology Funds
Reduce the Costs of the Rural Utilities Service's Electricity and
Telecommunications Loan Programs

Corporatize or Divest Selected Power Marketing Administrations

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

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

GAO's March 1998 report outlines three general options to address the federal role in restructuring markets: (1) maintaining the status quo of federal ownership and operation of the power generating projects, (2) maintaining the federal ownership of these assets but improving how they operated (an example of which is reorganizing the PMAs to operate as federally-owned corporations), and (3) divesting these assets. Under the

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

CBO estimates that divesting the federal hydropower assets for Southeastern, Southwestern and Western would result in the savings shown below. The estimate assumes that the divestiture would not occur for 2 years. Although the foregone receipts result in a loss of revenue in 2003 and 2004, it is mitigated by the large receipts from divestiture in 2003 and by the savings in discretionary spending.

Five-Year Savings					
Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Discretionary spending					
Savings from the 2000 funding level					
Budget authority	0	0	0	610	629
Outlays	0	0	0	323	620

Source: Congressional Budget Office.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Direct spending					
Savings from the CBO baseline					
Budget authority	0	0	5100	-600	-610
Outlays	0	0	5100	-600	-610

Source: Congressional Budget Office.

Related GAO Products

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

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

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

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

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

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

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

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

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

**Appendix III
Options for Increased Savings and Revenue
Gains**

GAO Contact

Jim Wells, (202) 512-3841

Recover Power Marketing Administrations' Costs

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

Four of the Department of Energy's (DOE) power marketing administrations (PMAs)—Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration—market primarily wholesale power in 33 states produced at large, multi-purpose projects. Except for Bonneville, these PMAs receive annual appropriations to cover operations and maintenance (O&M) expenses and, if applicable, the capital investment in transmission assets.

Federal law requires the PMAs to repay their appropriations as well as the power-related appropriations expended by the operating agencies that generate the federal power. The PMAs are to set power rates at levels that will allow them to repay these costs. The federal government currently, however, is not recovering the full cost of its power-related activities from the beneficiaries of federal power. For example, the federal government incurs a net cost related to the appropriations that finance the PMAs' power-related activities. The federal government incurs a net cost for providing this financing because the interest that the PMAs pay to the federal government on the appropriations that financed capital assets is less than the interest that the federal government must pay on the same amount of bonds in its portfolio of long-term bonds outstanding.

Bonneville's appropriated debt was restructured as of October 1, 1997, and its appropriated debt was reduced from about \$6.85 billion to about \$4.29 billion and the interest rate on the remaining appropriated debt was increased from 3.5 percent to 7.1 percent. The restructuring was designed so that the present value of the revised appropriated debt principal is equal to the present value of the principal and interest payments scheduled before the restructuring, plus \$100 million. With the exception of the additional \$100 million and the interest on it, GAO believes that the restructuring did not change the future net financing cost to the federal

government related to federal appropriations that financed much of Bonneville's capital assets.

As GAO reported previously, the PMAs had not been recovering the full costs of certain pension and other benefits for federal employees involved in power-related activities. The PMAs are now in varying stages of addressing this issue; however the Department of Energy has not changed departmental policy guidance contained in DOE Order RA6120.2 to ensure that these costs are recovered in the future.

Because the PMAs' electricity rates do not recover all costs that are to be repaid through the sale of power, the federal government is incurring substantial net costs annually. Also, the PMAs are able to sell power more cheaply than other providers for several reasons, including that they market power generated almost exclusively at low-cost hydropower facilities, are not required to earn a profit, and do not fully recover the government's costs in their rates. For example, from 1990 through 1995, these three PMAs sold wholesale power to their preference customers at average rates from 40 to 50 percent below the rates nonfederal utilities charged. If the PMAs were authorized to charge market rates for power, some preference customers who now purchase power from the PMAs at rates that are less than those available from other sources would see their rates increase. However, slightly more than two-thirds of these preference customers would experience small or no rate increases—increases of one-half cent per kilowatt hour or less—if the PMAs charged market rates. Directing the PMAs to more fully recover power-related costs or requiring them to sell their power at market rates would better ensure the full recovery of the appropriated and other debt—which totaled about \$22 billion at the end of fiscal year 1997—that is recoverable through the PMAs' power sales as well as lead to more efficient management of the taxpayers' assets.

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

Related GAO Products

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

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

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

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

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

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

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

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

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

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

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

Consolidate or Eliminate Department of Energy Facilities

Authorizing committees	Armed Services (Senate and House) Energy and Natural Resources (Senate) Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House)
Primary agency	Department of Energy
Account	Multiple (89-0224)
Spending type	Discretionary
Budget subfunction	Multiple
Framework theme	Improve efficiency

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

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

**Appendix III
Options for Increased Savings and Revenue
Gains**

transferring labs to universities, or assigning them to different agencies whose missions better match lab strengths.

One specific option that the Congress could consider is the consolidation of nuclear weapons functions of the Lawrence Livermore facility into the Los Alamos laboratory. Los Alamos officials have estimated that having both facilities design weapons, but only one facility engineer and test them, would save about \$200 million in annual operating costs. The table below reflects savings from phasing in such a consolidation over a 5-year period.

Five-Year Savings					
Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	42	93	145	196	242
Outlays	27	73	124	176	223

Note: This estimate assumes consolidation would take place over a 5-year period.

Source: Congressional Budget Office.

Related GAO Products

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

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

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

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

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

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

**Appendix III
Options for Increased Savings and Revenue
Gains**

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

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

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

GAO Contact

Jim Wells, (202) 512-3841

Reduce Department of Energy's Contractors' Separation Benefits

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

Since 1993, the Department of Energy has spent about \$853 million to provide benefits to contractor employees separated in workforce restructuring and downsizing efforts at its facilities. Most of the contractor workers separated during fiscal years 1997 and 1998 received benefits under DOE's workforce restructuring program. While DOE generally offered its separated contractor employees a large range of benefits, the value of the benefits varied widely, primarily because of the differences in the benefits packages among sites and in the employees' length of service and base pay. These benefit packages are reasonably consistent with the types of benefits offered by public and private employers. However, the benefit formulas in some of DOE's workforce restructuring plans, such as those determining voluntary separation benefits and extended medical coverage, potentially allow more generous benefits than those offered for federal civilian employees.

As DOE continues to align its contractor workforce because of its reduced defense mission and as it completes environmental cleanup efforts, it will undergo further downsizing. The Congress could act to bring separation benefits in line with benefits provided to federal employees. CBO estimates such action would result in the following savings.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	3	3	3	3	4
Outlays	3	3	3	3	4

Source: Congressional Budget Office.

Related GAO Products

Department of Energy Workforce Reductions: Community Assistance Could Be Better Targeted (GAO/RCED-99-135, May 7, 1999).

Department of Energy: Value of Benefits Paid to Separated Contractor Workforce Varied Widely (GAO/RCED-97-33, Jan. 23, 1997).

GAO Contact

Jim Wells, (202) 512-3841

**Exempt Certain
 Department of Energy
 Operating Contractors
 from State Taxes**

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

The federal government is exempt from paying certain state taxes, such as gross receipts and use taxes. However, the Department of Energy’s (DOE) contractor-operated laboratories and production plants, although wholly government-owned and dedicated exclusively to government programs, are subject to such taxes. Because DOE has fully reimbursable contracts with its operating contractors, DOE is, in effect, paying these taxes. The amounts reimbursed can be significant. For example, in fiscal year 1998, the contractors at DOE’s Oak Ridge and Sandia facilities were reimbursed almost \$60 million for gross receipts, sales, and/or use taxes. If the Congress chose to designate DOE operating contractors as “instrumentalities of the federal government,” the following savings could be achieved. Such action would make the contractors immune from state taxation and thereby eliminate this expense.

Five-Year Savings

Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	64	66	67	69	71
Outlays	42	62	67	69	70

Source: Congressional Budget Office.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Related GAO Product	<i>Energy Management: DOE Controls Over Contractor Expenditures Need Strengthening</i> (GAO/RCED-87-166, Aug. 28, 1987).
----------------------------	--

GAO Contact	Jim Wells, (202) 512-3841
--------------------	---------------------------

Increase Nuclear Waste Disposal Fees

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

Utilities pay a fee to the Nuclear Waste Fund to finance the development of storage and permanent disposal facilities for high-level radioactive wastes. The amount of this fee has not changed since 1983, making the fund susceptible to future budget shortfalls. To help ensure that sufficient revenues are collected to cover increases in cost estimates caused by price inflation, the Congress should amend the Nuclear Waste Policy Act of 1982 to direct the Secretary of Energy to automatically adjust for inflation the nuclear waste disposal fee that utilities pay into the Nuclear Waste Fund. If the fee were indexed to inflation, the following additional receipts could be expected.

Five-Year Savings

Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Added receipts	11	21	31	42	53

Source: Congressional Budget Office.

Related GAO Products

Status of Actions to Improve DOE User-Fee Assessments (GAO/RCED-92-165, June 10, 1992).

Changes Needed in DOE User-Fee Assessments (GAO/T-RCED-91-52, May 8, 1991).

Changes Needed in DOE User-Fee Assessments to Avoid Funding Shortfall (GAO/RCED-90-65, June 7, 1990).

**Appendix III
Options for Increased Savings and Revenue
Gains**

GAO Contact

Jim Wells, (202) 512-3841

Recover Federal Investment in Successfully Commercialized Technologies

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

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

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

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

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

Related GAO Product

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

GAO Contact

Jim Wells, (202) 512-3841

Reduce Hanford Tank Waste Cleanup Costs

Authorizing committees	Armed Services (Senate and House)
Appropriations subcommittees	Energy and Water Development (Senate and House)
Primary agency	Department of Energy
Account	Defense Environmental Restoration and Waste Management (89-9242)
Spending type	Discretionary
Budget subfunction	053/Atomic energy defense activities
Framework theme	Increase efficiency

The Department of Energy's (DOE) Hanford Site in Washington State is developing a project to treat about 54 million gallons of highly radioactive waste currently stored in underground tanks. The first phase of the project, to process about 10 percent of the waste, is estimated to cost more than \$10 billion. The total project is expected to cost an estimated \$50 billion.

In an attempt to reduce costs and accelerate cleanup, DOE is implementing a revised contracting strategy for the project by negotiating a fixed-price contract that requires the contractor to finance the project. DOE would then pay the contractor for successfully treating waste. This approach requires the contractor to use a combination of equity and debt financing that is generally more expensive than the cost of federal appropriations.

Part of DOE's rationale for implementing this approach is that significant performance risks are shifted from DOE to the contractor. DOE believes this will inspire contractor best practices, leading to lower project costs. However, in 1998, DOE agreed to guarantee much of the contractor's debt, an unusual feature in a fixed-price contract. Because DOE has assumed substantial risk by backing the contractor's debt, savings could potentially be achieved on the project by evaluating alternatives to 100-percent private financing, to ensure that the selected financing alternative is cost-effective. DOE has agreed to evaluate alternative financing options prior to August 2000 when DOE plans to fix contract prices.

The Congress may wish to consider directing DOE to identify and implement a lower cost option for financing the project such as requiring part or all of the project costs to be financed by appropriations instead of private debt. Doing so would reduce the amount of budget authority

Appendix III
Options for Increased Savings and Revenue
Gains

needed for the project and reduce the outlays for the project, which are scheduled to begin in fiscal year 2007.

CBO cannot estimate whether there would be net budgetary savings at this time.

Related GAO Products

Nuclear Waste: Department of Energy's Hanford Tank Waste Project—Schedule, Cost, and Management Issues (GAO/RCED-99-13, Oct. 8, 1998).

Department of Energy: Alternative Financing and Contracting Strategies for Cleanup Projects (GAO/RCED-98-169, May 29, 1998).

GAO Contact

Jim Wells, (202) 512-3841

Reassess the Department of Energy’s Strategic Computing Initiative

Authorizing committees	Energy and Natural Resources (Senate) Commerce (House) Armed Services (Senate and House)
Appropriations subcommittees	Energy and Water Development (Senate and House)
Primary agency	Department of Energy
Account	Multiple
Spending type	Discretionary
Budget subfunction	Multiple
Framework theme	Reassess objectives

In 1997, the Department of Energy (DOE) had about 17 percent of the world’s supercomputing capacity and it has tripled its capacity since then. While seven DOE labs have multiple supercomputers, the largest are associated with the Accelerated Strategic Computing Initiative which is intended to develop a “virtual test” capability that, in the absence of nuclear testing, can be used to simulate performance of nuclear weapons. From fiscal years 1994 through 1997, DOE spent about \$300 million purchasing 35 supercomputers and about \$526 million to operate them. Since fiscal year 1998, DOE has spent an estimated \$257 million to acquire additional supercomputers, most of them associated with the Strategic Computing Initiative.

In fiscal year 1997, DOE used only about 59 percent of its available supercomputer capacity and was missing opportunities to share supercomputer resources. Further, the largest supercomputers—those justified as needed to run very large programs across hundreds or even thousands of processors to solve the largest problems in a reasonable period of time—were seriously underutilized. Less than 5 percent of the jobs run on those supercomputers used more than one-half of the supercomputers available processors. DOE also lacked an investment strategy to assure that supercomputer acquisitions were fully justified and represented the best use of funds among competing priorities.

The Congress may wish to require DOE to develop an investment process that considers, among other factors, the utilization rate of existing supercomputers and the possibility of sharing resources among labs.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Alternatively, if the Congress elected to terminate the program, the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	518	518	518	518	518
Outlays	337	492	518	518	518

Source: Congressional Budget Office.

Related GAO Products

Nuclear Weapons: DOE Needs to Improve Oversight of the \$5 Billion Strategic Computing Initiative (GAO/RCED-99-195, June 28, 1999).

Information Technology: Department of Energy Does Not Effectively Manage Its Supercomputers (GAO/RCED-98-208, July 17, 1998).

GAO Contact

Jim Wells, (202) 512-3841

Rescind Clean Coal Technology Funds

Authorizing committees	Energy and Natural Resources (Senate) Science (House)
Appropriations subcommittees	Interior and Related Agencies (Senate and House)
Primary agency	Department of Energy
Account	Clean Coal Technology (89-0235)
Spending type	Discretionary
Budget subfunction	271/Energy supply
Framework theme	Reassess objectives

Since its beginning in 1985, the Department of Energy's (DOE) Clean Coal Technology Program has received \$2.75 billion in appropriated funds. The purpose of the program is to provide cost-sharing assistance to industry-sponsored projects that demonstrate innovative technologies for using coal in a highly efficient, environmentally sound, and economically competitive manner. DOE funds up to 50 percent of project costs and the nonfederal participants fund the balance. In total, 40 projects have been completed or are currently active, and 10 projects have been terminated or withdrawn. A number of the clean coal technology demonstration projects have experienced problems and difficulties in meeting cost, schedule, and performance goals. DOE has extended deadlines several times on some projects to allow their sponsors to restructure the projects, find suitable alternative project sites, and obtain financing commitments to make the projects economically viable.

From April 1995 through October 1998, the Congress rescinded \$441 million of this program's budget authority that represented unobligated funds associated with projects that had been terminated or restructured. At the beginning of October 1999, the program had about \$410 million of budget authority that was not obligated to any project. Of these funds, \$186 million represented budget authority which could not be used until after fiscal year 2000. Based on DOE's current estimate of obligations, the program will have about \$129 million in unobligated funds at the end of fiscal year 2004 after DOE has funded all remaining projects. Most of the \$129 million in unobligated funds will be the result of the restructuring of one project in November 1999 which reduced DOE's cost share for the project by \$105 million. DOE's FY 2001 budget request proposes the rescission of \$105 million, but DOE believes the additional

\$24 million is needed for “overrun contingencies” for the remaining incomplete projects. However, based on GAO’s March 2000 report on the status of the Clean Coal Technology Program and DOE’s comments on the report, additional funds should become available as a result of the closeout of three projects that have been terminated. Therefore, GAO continues to believe that \$129 million could be considered for rescission.

CBO would provide no savings for such a rescission due to the differing assumptions CBO and DOE have about the spending patterns of the Clean Coal Technology Fund.

Related GAO Products

Clean Coal Technology: Status of Projects and Sales of Demonstrated Technology (GAO/RCED-00-86R, March 9, 2000).

Fossil Fuels: Lessons Learned in DOE’s Clean Coal Technology Program (GAO/RCED-94-174, May 26, 1994).

Fossil Fuels: Improvements Needed in DOE’s Clean Coal Technology Program (GAO/RCED-92-17, Oct. 30, 1991).

GAO Contact

Jim Wells (202) 512-3841

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

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

The Rural Utilities Service (RUS), created by the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994 (P.L. 103-354, Oct. 13, 1994), was established to provide loan funds intended to assist in the development of the utility infrastructure in the nation’s rural areas. RUS finances the construction, improvement, and repair of electrical, telecommunications, and water and waste disposal systems through direct loans and through repayment guarantees on loans made by other lenders. According to RUS reports, the outstanding principal owed on RUS loans totaled about \$41 billion as of September 30, 1998.

From a financial standpoint, RUS has successfully operated the telecommunications loan program, but the agency has had, and continues to have, significant financial problems with the electricity loan program. For example, during fiscal years 1992 through July 31, 1997, RUS wrote off the debt of four electricity loan borrowers totaling more than \$1.5 billion. Since then, the agency has written off \$0.3 billion and is in the process of writing off an additional \$3.0 billion, and it is probable that the agency will continue to incur losses in the future.

RUS needs to take steps to increase the effectiveness and reduce the costs of its loan programs. RUS could, for example, (1) target loans to borrowers that provide services to areas with low populations, (2) target subsidized direct loans to borrowers that have a financial need for the agency’s assistance, and (3) graduate the agency’s financially viable borrowers from direct loans to commercial credit. Also, to reduce its vulnerability to losses, RUS could (1) establish loan and indebtedness limits, (2) set the repayment guarantee at a level below 100 percent, and (3) prohibit loans to delinquent

borrowers or to borrowers who have caused the agency to incur loan losses.

CBO cannot develop an estimate for this option until specific proposals to improve efficiency are identified.

Related GAO Products

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

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

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

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

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

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

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

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

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

GAO Contact

Lawrence J. Dyckman, (202) 512-5138

**300 Natural Resources
and Environment**

Pursue Cost Effective Alternatives to NOAA's Research/Survey Fleet
Reassess Federal Land Management Agencies and Programs
Implement Market-Based Incentives for Use of Federal Lands and Natural
Resources
Revise the Mining Law of 1872
Reduce Federal Outlays for Natural Resources Revenue Sharing
Coordinate Federal Policies for Subsidizing Water for Agriculture and Rural
Uses
Increase Federal Revenues Through Water Transfers
Improve Hazardous Waste Cleanup Cost Recovery
Identify and Recover Excess Funds in Superfund Contracts
Better Control Spending for Superfund Cleanup Contractors
Improve Oversight of Superfund Administrative Expenditures
Increase Flexibility in Preparing Health Assessments for Superfund Sites

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

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

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

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

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

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

Related GAO Products

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

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

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

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

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

**Appendix III
Options for Increased Savings and Revenue
Gains**

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

GAO Contact

Michael Brostek, (202) 512-3909

Reassess Federal Land Management Agencies Functions and Programs

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

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

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

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

Without a specific restructuring proposal that would eliminate certain programs or revise how the land is managed, CBO does not estimate savings due to sharing resources among the four major land management agencies. Savings would depend on the extent of a workforce restructuring and implementation proposal.

Related GAO Products

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

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

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

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

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

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

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

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

GAO Contact

Jim Wells, (202) 512-3841

Implement Market-Based Incentives for Use of Federal Lands and Natural Resources

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

Implementing market-based incentives and management practices may encourage more economically and environmentally sound use of federal lands and resources. The existing arrangement for use of the public domain provides subsidies to users—such as grazers, miners, and communication site lessees—that may encourage poor use of scarce resources and/or deprive the government of revenues to which it is entitled. In addition, certain nonfee-related provisions of the governing laws may also encourage less than optimal use of those lands and resources. For example, currently livestock operators on Forest Service lands are required to graze livestock on their allotments or lose their permits. Removing this “use-it-or-lose-it” requirement would not only promote economically efficient use of the resources, but also improve ecological conditions on Forest Service lands since environmental groups may often outbid ranchers for the permits in order to rest the land.

Many proposals have been advanced to alter the existing arrangements to stress better use of the lands and/or increased revenue to the federal government including: implementing new user fees for a variety of uses; charging fair market value for goods and recovering costs for services; opening certain uses to competitive bidding and removing restrictions on how the land must be used; funding land management units out of net receipts; and entering into partnership arrangements with other governmental and non-governmental entities. Some of these ideas would require specific new statutory authority, while others could be implemented under current authority.

According to the Thoreau Institute, charging fair market value for all uses, including timber, grazing, recreation, and minerals and subsequently funding forests, parks, and public lands out of the net income would save

taxpayers more than \$21 billion over 5 years. No more funds would be appropriated for these uses.

GAO presents several other options that illustrate how market-based incentives could be implemented. See the options “Revising the Mining Law of 1872,” “Coordinating Federal Policies for Subsidizing Water for Agriculture and Rural Uses,” and “Increasing Federal Revenues Through Water Transfers.”

CBO agrees that implementing market-based incentives and management practices could generate additional offsetting receipts. However, it cannot develop an estimate until specific proposals are identified.

Related GAO Products

Forest Service: Barriers to and Opportunities for Generating Revenue (GAO/T-RCED-99-81, Feb. 10, 1999).

Forest Service: Lack of Financial and Performance Accountability Has Resulted in Inefficiency and Waste (GAO/T-RCED/AIMD-98-135, Mar. 26, 1998).

Forest Service: Barriers to Generating Revenue or Reducing Costs (GAO/RCED-98-58, Feb. 13, 1998).

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

GAO Contact

Jim Wells, (202) 512-3841

Revise the Mining Law of 1872

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

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

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

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the CBO baseline					
Offsetting receipts	36	44	41	41	41

Source: Congressional Budget Office.

Related GAO Products

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

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

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

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

GAO Contact

Jim Wells, (202) 512-3841

Reduce Federal Outlays for Natural Resources Revenue Sharing

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

The federal government collects fees from private interests for the sale or use of natural resources on federal lands. A percentage of these fees is, under certain conditions, allocated to states and counties as an offset for tax revenues not received from the federal lands.

Federal land-managing agencies typically do not deduct the full costs of their programs from the gross receipts that the programs generate before sharing the receipts with states and counties. Sharing federal receipts on a gross, rather than a net, basis often reduces the federal government's share of the revenues.

According to CBO, changing revenue sharing from a gross-receipt to a net-receipt basis would reduce net federal outlays and produce the following savings.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the CBO baseline					
Budget authority	185	185	185	190	190
Outlays	185	185	185	190	190

Source: Congressional Budget Office.

Related GAO Products

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

Forest Service: Barriers to Generating Revenue or Reducing Costs (GAO/RCED-98-58, Feb. 12, 1998).

Forest Service: Distribution of Timber Sales Receipts Fiscal Years 1992-94 (GAO/RCED-95-237FS, Sept. 8, 1995).

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

Rangeland Management: Current Formula Keeps Grazing Fees Low (GAO/RCED-91-185BR, June 11, 1991).

Forest Service Needs to Improve Efforts to Reduce Below-Cost Timber Sales (GAO/T-RCED-91-43, Apr. 25, 1991).

Mineral Revenues: Collection and Distribution of Revenues From Acquired Lands (GAO/RCED-90-7, Aug. 2, 1990).

GAO Contact

Jim Wells, (202) 512-3841

Coordinate Federal Policies for Subsidizing Water for Agriculture and Rural Uses

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

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

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

Collecting the Full Costs of Subsidized Federal Water for Large Farms

Under the Reclamation Reform Act of 1982, as amended, some farmers have reorganized large farming operations into multiple, smaller landholdings to be eligible to receive additional federally subsidized irrigation water. The act limits to 960 the maximum number of owned or leased acres that individuals or legal entities (such as partnerships or corporations) can irrigate with federal water at rates that exclude interest on the government's investment in the irrigation component of its water resource projects. However, due to the vague definition of the term "farm," the flow of federally subsidized water to land holdings above the 960 acre-limit has not been stopped, and the federal government is not collecting revenues to which it is entitled under the act.

Phasing Out the Double Subsidies for Crops

The use of federally subsidized water to produce federally subsidized crops results in the government paying double subsidies. According to the Department of the Interior, between 1976 and 1985, an average of 38 percent of the acreage served by the Bureau of Reclamation nationwide was used to produce crops that are also eligible for subsidies through the

Department of Agriculture's commodity programs. Estimates of the cost of federal water subsidies vary but are substantial. The Department of the Interior estimated that irrigation subsidies used to produce subsidized crops throughout the 17 western states totaled \$203 million in 1986; the Bureau of Reclamation placed the figure at \$830 million.

**Accelerating the Repayment
of Water Project
Construction Costs**

By the end of fiscal year 1990, after receiving water from the Central Valley Project (CVP) in California's Central Valley Basin for over 40 years, irrigators had repaid only \$10 million, 1 percent, of the over \$1 billion in construction costs that they owe the federal government. In 1986, the Congress required irrigators and other users to pay their share of the federal investment in CVP by 2030. While construction costs ultimately may be recovered by 2030, the dollars that eventually flow to the Treasury could be worth much less than if they had been repaid sooner. The Congress may wish to accelerate the repayment schedule.

**Fully Recovering the
Federal Investments in
Rural Water Systems**

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

**Phasing Out the Interest
Subsidies for Irrigators**

Estimates of the current cost of federal water subsidies are substantial. For example, the Department of the Interior reported that irrigation subsidies throughout the 17 western states totaled \$534 million in 1986, while the Bureau of Reclamation placed the cost at \$2.2 billion. Estimates differ because of different definitions of an irrigation subsidy, different interest rates used to calculate the subsidies, and different methods for compounding unpaid interest. Much has changed in the West since the subsidies were established in 1902, and it is not known whether the

**Appendix III
Options for Increased Savings and Revenue
Gains**

subsidies are still warranted or whether irrigators could pay more of the cost of the water delivered.

Five-Year Savings

Dollars in millions	FY01	FY02	FY03	FY04	FY05
Option: Increased fees for subsidized water to large farms					
Added receipts	4	8	8	8	8

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions	FY01	FY02	FY03	FY04	FY05
Option: Phase out double subsidies					
Added receipts	3	6	10	10	10

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions	FY01	FY02	FY03	FY04	FY05
Option: Accelerating repayment of water project construction costs					
Added receipts	3	7	10	10	10

Source: Congressional Budget Office.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Option: Recovery of federal investment in hydropower facilities					
Added receipts	18	18	18	18	18

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Option: Phase out interest subsidy for irrigators					
Added receipts	4	10	14	14	14

Source: Congressional Budget Office.

Related GAO Products

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

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

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

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

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

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

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

**Appendix III
Options for Increased Savings and Revenue
Gains**

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

GAO Contact

Jim Wells, (202) 512-3841

Increase Federal Revenues Through Water Transfers

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

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

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

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Added receipts	2	4	4	4	4

Source: Congressional Budget Office.

Related GAO Product

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

GAO Contact

Jim Wells, (202) 512-3841

Improve Hazardous Waste Cleanup Cost Recovery

Authorizing committees	Environment and Public Works (Senate) Commerce (House) Transportation and Infrastructure (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Environmental Protection Agency
Account	Hazardous Substance Superfund (20-8145)
Spending type	Discretionary
Budget subfunction	304/Pollution control and abatement
Framework theme	Improve efficiency

The Environmental Protection Agency's (EPA) program to clean up hazardous waste sites, called the Superfund program, presents a number of management challenges that increase its risk to fraud, waste, and abuse. A key program challenge is the need to more effectively recover, from those responsible for the contamination, billions of dollars in cleanup costs that the agency incurs when it pays for cleanup activities.

Historically, EPA has not charged responsible parties for some indirect costs that the agency could appropriately recover for operating the Superfund program. When the agency settles cost-recovery cases, EPA has used a methodology that excludes a large portion of indirect program costs and thus understates costs to responsible parties. Through fiscal year 1998, GAO reported that the agency failed to recover about \$2 billion in indirect costs excluded from final settlements with responsible parties because of this methodology. GAO recommended that EPA adopt a more complete indirect-cost rate, thereby, significantly increasing the indirect costs charged to responsible parties and reducing the federal government's cleanup costs. Because the taxing authority used to replenish the Trust Fund—set up to pay for the Superfund program—has expired, increasing the amount of indirect-cost recoveries is of growing importance. EPA could bolster the Trust Fund balance and help postpone the depletion of the fund, and thus reduce the need for the Congress to appropriate cleanup monies from general revenues. EPA has developed a new methodology that more completely accounts for its indirect costs, but the cost recovery program managers have not yet assessed parties the new rate when negotiating cost recovery settlements.

Appendix III
Options for Increased Savings and Revenue
Gains

EPA can improve its management of Superfund cost-recovery efforts if it moves quickly to use the new, more comprehensive cost rate. Savings cannot be estimated because of EPA's varying success in collecting the full amount of current penalty and interest charges.

Related GAO Products

Superfund: Progress Made by EPA and Other Federal Agencies to Resolve Program Management Issues, (GAO/RCED-99-111, B-282170, Apr. 20, 1999).

Superfund: Progress, Problems, and Future Outlook (GAO/T-RCED-99-128, Mar. 23, 1999).

Performance and Accountability Series: Major Management Challenges and Program Risks (GAO/OCG-99-17, Jan. 1999).

High-Risk Series: Superfund Program Management (GAO/HR-97-14, Feb. 1997).

Superfund: EPA Has Opportunities to Increase Recoveries of Costs (GAO/RCED-94-196, B-257063, Sept. 28, 1994).

Superfund: More Settlement Authority and EPA Cost Controls Could Increase Cost Recovery (GAO/RCED-91-144, July 18, 1991).

GAO Contact

Peter F. Guerrero, (202) 512-6111

Identify and Recover Excess Funds in Superfund Contracts

Authorizing committees	Environment and Public Works (Senate) Commerce (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Environmental Protection Agency
Account	Hazardous Substances Superfund (20- 8145)
Spending type	Discretionary
Budget subfunction	304/Pollution control and abatement
Framework theme	Improve efficiency

The Environmental Protection Agency's (EPA) Superfund program, created in 1980, was intended to clean up those sites considered to be the most serious of the hazardous waste sites. EPA is authorized to compel parties responsible for causing the hazardous waste pollution to clean up the sites. If these parties cannot be found, or if a settlement with them cannot be reached, EPA can hire contractors to conduct the clean up. EPA has reported spending over \$10 billion for cleaning up nonfederal Superfund sites.

If EPA took more aggressive action in identifying and closing completed contracts under the Superfund program, excess amounts could be recovered and used for new Superfund work, obviating the need for additional appropriations to perform such work. For fiscal years 1990 through 1999, Superfund contracts accounted for about \$7.4 billion, or 50 percent, of the \$14.8 billion that EPA had obligated for all contracts awarded. For various reasons, the amount of funds obligated for a particular contract often exceeds the amount eventually paid to the contractor. For example, sometimes funds are obligated for Superfund clean up activity but the actual expenditures are less than the obligated amount. In such circumstances, the unspent funds should be deobligated and used for other Superfund activities, once the original contracts are closed.

In 1994, EPA's Office of Inspector General reported that contracts awarded under the Superfund program had balances of over \$100 million in unspent obligated funds that were no longer needed for their original purposes. In the same year, an EPA task force was established to develop guidance on

and pursue the recovery of excess funds. However, in April 1997, GAO reported that substantial amounts remained obligated for completed projects. Using EPA data systems, GAO identified \$249 million in potential recoveries, and encouraged EPA to aggressively pursue these recoveries. In some cases, contracts had not been closed when work had been completed many years ago.

In response to GAO's recommendation, EPA committed itself to expediting agency efforts to deobligate and reuse funds. In July 1998, GAO reported that EPA recovered \$210 million during fiscal year 1997 and in July 1999 GAO found that EPA had recovered \$125 million in fiscal year 1998. However, EPA's Office of Inspector General reported in its audit of EPA's fiscal year 1998 financial statements that EPA was still not timely in identifying and deobligating unspent obligated funds and that the area was considered a material weakness. At the end of fiscal year 1998, EPA identified \$99.6 million of unspent obligations that still needed to be deobligated. The Congress may want to reduce EPA's fiscal year 2001 appropriation by \$100 million to encourage greater recovery of funds.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	100	0	0	0	0
Outlays	25	35	20	10	5

Source: Congressional Budget Office.

Related GAO Products

Environmental Protection: Funds Obligated for Completed Superfund Projects (GAO/RCED-98-232, B-279695, July 21, 1998).

Environmental Protection: Opportunities to Recover Funds Obligated for Completed Superfund Projects (GAO/T-RCED-97-134, Apr. 15, 1997).

GAO Contact

Peter F. Guerrero, (202) 512-6111

Better Control Spending for Superfund Cleanup Contractors

Authorizing committees	Environment and Public Works (Senate) Commerce (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Environmental Protection Agency
Account	Hazardous Substances Superfund (20- 8145)
Spending type	Discretionary
Budget subfunction	304/Pollution control and abatement
Framework theme	Improve efficiency

The Environmental Protection Agency (EPA) relies heavily on private contractors to perform or manage its Superfund cleanup activities. A major problem is that the agency has had difficulty controlling the program support costs, or overhead, of its Superfund contractors. Such costs cover various items, including contractors' management salaries and rent.

GAO reported in April 1999 that despite some actions to reduce contractor program support costs, EPA continued to incur high cost rates. One reason is that the agency did not have enough cleanup work for all of the contractors it had in place, but under contractual requirements still had to pay their support costs. Although EPA had reduced by half the number of contractors it retained when it authorized a new round of Superfund contracts, GAO's work indicated that this reduction might not have been sufficient to address the problem. For example, GAO reported that for the majority of contracts they reviewed, EPA continued to pay contractors program support costs ranging from 16 percent to 76 percent of the overall contract's costs—exceeding EPA's 11 percent target. Given that EPA expects its future Superfund workload to decrease as states take on more responsibility for site cleanups, the rate of program support costs will continue to rise unless the agency adjusts the number of contracts it retains when it decides whether to exercise its option to renew expiring contracts.

GAO has recommended that EPA complete a review of the number of contracts it needs to keep in place given the projected future cleanup workload, and that it do so before it loses the opportunity to close out some of the contracts whose base periods are expiring. EPA needs to take this action before deciding whether to extend the contracts for another 5

years. In response, the agency has recently initiated a monitoring and quarterly reporting system to better manage its use of existing contracts and to help it decide whether to renew expiring contracts. The agency also issued guidance to its regional offices, including criteria that they should use in deciding whether to extend contract options. Although it is premature to determine the impact of these actions, once they are fully implemented EPA may be in a better position to control contractor program support costs. CBO cannot estimate such savings without further information regarding the details of the proposed option.

Related GAO Products

Superfund: Progress Made by EPA and Other Federal Agencies to Resolve Program Management Issues (GAO/RCED-99-111, B-282170, Apr. 29, 1999).

Superfund: Progress, Problems, and Future Outlook (GAO/T-RCED-99-128, Mar. 23, 1999).

Major Management Challenges and Program Risks, Environmental Protection Agency (GAO/OCG-99-17, Jan. 1999).

High-Risk Series: Superfund Program Management (GAO/HR-97-14, Feb. 1997).

GAO Contact

Peter F. Guerrero, (202) 512-6111

**Improve Oversight of
Superfund
Administrative
Expenditures to Better
Identify Opportunities
for Cost Savings**

Authorizing committees	Environment and Public Works (Senate) Commerce (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Environmental Protection Agency
Account	Hazardous Substances Superfund (20-8145)
Spending type	Discretionary
Budget subfunction	304/Pollution control and abatement
Framework theme	Improve efficiency

Under the Superfund program, when the Environmental Protection Agency (EPA) pays for the cleanup of a contaminated site, the work is conducted by private contractors who are hired by EPA, another federal entity, or a state. In a mature program such as Superfund, which is almost 20 years old, an increasing proportion of expenditures should be directly related to cleaning up sites, with a smaller proportion of program expenditures going to administrative support activities.

Superfund program expenditures for the study, design, and construction of cleanups declined from 48 percent in fiscal year 1996 to 42 percent in fiscal year 1998 while support spending increased from 52 percent to 58 percent over this same period. GAO found that most of the agency's support spending went for administrative items, such as rent, computer services, and policy development activities. EPA headquarters' spending was particularly concentrated in non-site specific support categories. For example, for fiscal years 1996 through 1998, about 82 percent of EPA headquarters' Superfund spending was for nonsite-specific items, such as overall program direction; policy development; program planning and analysis; budgetary, financial and administrative support; rent, and information management support.

To help better identify opportunities for potential cost savings in the Superfund program, GAO recommended that EPA expand the monitoring of program expenditures to regularly analyze the breakdown of expenditures in terms of contractor cleanup work, site-specific spending, and nonsite-specific spending. Such analyses should compare spending shares among EPA regional and headquarters units, and significant

differences should be further analyzed to identify the root causes and to determine where cost-saving corrective actions are warranted.

A reduction in expenditures for administrative support activities could lead to a reduction in overall spending or an increase in the share of Superfund spending that goes for site-specific purposes, such as studying, designing, and implementing cleanups. Decreasing the proportion of expenditures related to administrative support activities and increasing the proportion directly related to cleaning up sites could lead to a more efficient use of limited resources. CBO cannot estimate such savings without further information regarding the details of the proposed option.

Related GAO Products

Superfund: EPA Can Improve Its Monitoring of Superfund Expenditures (GAO/RCED-99-139, B-282352, May 11, 1999).

Superfund: Progress Made by EPA and Other Federal Agencies to Resolve Program Management Issues (GAO/RCED-99-111, B-282170, Apr. 21, 1999).

Superfund: Progress, Problems, and Future Outlook (GAO/T-RCED-99-128, Mar. 23, 1999).

Performance and Accountability Series: Major Management Challenges and Program Risks, Environmental Protection Agency (GAO/OCG-99-17, Jan. 1999).

GAO Contact

Peter F. Guererro, (202) 512-6111

Increase Flexibility in Preparing Health Assessments for Superfund Sites

Authorizing committees	Environment and Public Works (Senate) Commerce (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Environmental Protection Agency
Account	Hazardous Substance Superfund (20-8145)
Spending type	Discretionary
Budget subfunction	304/Pollution control and abatement
Framework theme	Improve efficiency

The Agency for Toxic Substances and Disease Registry (ATSDR) provides a number of products and services related to human health effects of exposure to hazardous substances. Many of these products and services are useful to the Environmental Protection Agency (EPA) in its efforts to clean up hazardous waste sites including consultations, which are typically issue-specific, short-term efforts addressing unique health issues at Superfund sites. Although many of ATSDR's products and services are useful to EPA's efforts to clean up hazardous waste sites, public health assessments—which are typically long-term, extensive efforts focusing on the health effects of hazardous waste sites—have little or no impact on EPA's cleanup decisions. This is because the longer-term assessments are often not issued when needed nor have they been conclusive about the health effects of Superfund sites. EPA and ATSDR officials attributed the problems with these health assessments, in part, to the statutory requirement of preparing full health assessments for all sites listed or proposed for listing on EPA's National Priority List.

GAO has recommended that the Congress amend the requirement that ATSDR conduct a detailed health assessment at each site proposed for or listed on EPA's Superfund National Priorities List. The recommendation was intended to provide ATSDR with more flexibility in choosing the appropriate health-related product or service to best meet EPA and other users' needs in addressing activities at hazardous waste sites. Congress provided ATSDR with this flexibility in EPA's fiscal year 2000 appropriation. The act also reduced ATSDR's appropriation by \$6 million related to this change. Continuation of this program flexibility in future legislation (e.g., reauthorization or appropriations) would likely result in similar savings in

Appendix III
Options for Increased Savings and Revenue
Gains

fiscal year 2001 and beyond. CBO could not estimate any savings for this option as savings are already assumed in baseline projections.

Related GAO Product

Superfund Program: Activities of the Agency for Toxic Substances and Disease Registry and Department of Justice (GAO/RCED-99-85, B-281999, Mar. 18, 1999).

GAO Contact

Peter F. Guererro, (202) 512-6111

350 Agriculture

Consolidate Common Administrative Functions at the Department of
Agriculture
Further Consolidate Farm Service Agency County Offices
Strengthen Controls Over Crop Insurance Claims
Terminate or Reduce the Department of Agriculture's Market Access
Program

Consolidate Common Administrative Functions at the Department of Agriculture

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

In accordance with the Federal Crop Insurance Reform and Department of Agriculture Reorganization Act of 1994, USDA has reorganized and streamlined its structure, consolidating 43 agencies and offices into 29 operating under seven mission areas. Under its streamlining plans, USDA also required mission areas with more than one agency to consolidate administrative functions such as human resource management and procurement. By mid-1997, USDA reported that administrative consolidation had been completed in four of the five mission areas with more than one agency.

However, GAO found that many of the mission areas where consolidation had been completed, still have multiple offices performing functions such as legislative and legal affairs, public information and community affairs, and financial and budget management for each of the component agencies. In total, more than 3,500 staff fill these positions. In addition, USDA has recently developed a plan to streamline administrative functions for its county-based service agencies—the Farm Service Agency, the Natural Resources and Conservation Service, and the agencies in the Rural Development mission. Included in this plan is the creation of a Support Services Bureau to provide centralized administrative support to these county-based agencies. Until recently, each of these agencies has maintained separate administrative operations nationally and at the state office level in almost every state. The state offices employ 4,782 USDA employees, including administrative staff.

To further streamline its organization, increase efficiency, and reduce overhead costs associated with running separate offices, USDA could do

more to combine agencies' support functions, such as legislative and legal affairs and public information, into a single office serving the needs of all mission component agencies. In addition, even though USDA has developed a plan to converge administrative functions for county-based agencies, a number of obstacles need to be overcome if the plan is to be successfully implemented, including the selection of a strong leadership team to implement the convergence plan. Development of the Support Services Bureau is currently on hold because funding was explicitly not made available in the 2000 appropriation. CBO agrees that this option could potentially yield savings, but did not develop a savings estimate due to uncertainty of the extent to which improved efficiencies actually lead to budgetary savings.

Related GAO Products

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

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

GAO Contact

Lawrence J. Dyckman, (202) 512-5138

Further Consolidate Farm Service Agency County Offices

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

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

In response to the Agriculture Reorganization Act, USDA's Farm Service Agency has closed over 370 county offices and reduced its county office staff by about 28 percent. However, the Farm Service Agency still has nearly 2,400 county offices, including 673 small county offices that have three or fewer permanent full-time employees. These smaller offices generally cannot take advantage of certain economies of scale. For example, USDA's workload data indicate that small county offices spend about 46 percent of their time on such fixed administrative activities as obtaining and managing office space and processing paperwork related to payroll. In comparison, larger county offices spend only 32 percent of their time on these administrative activities.

The Farm Service Agency could further consolidate its county office field structure by closing more of its small county offices. Criteria for

determining which small county offices to close could include the (1) distance from another county office, (2) time spent on administrative duties, and (3) number of farmers who receive Farm Service Agency financial benefits. Although CBO agrees that closing offices that serve few farmers would produce savings, it cannot develop a savings estimate until a specific proposal is identified.

Related GAO Products

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

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

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

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

GAO Contact

Lawrence J. Dyckman, (202) 512-5138

Strengthen Controls Over Crop Insurance Claims

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Accounts	Federal Crop Insurance Corporation Fund (12-4085)
Spending type	Discretionary
Budget subfunction	351/Farm income stabilization
Framework theme	Improve efficiency

Since 1981, USDA's crop insurance program has provided \$14.1 billion to farmers for insured crop losses caused by droughts, floods, hurricanes, and other natural disasters. This multibillion-dollar program, administered by USDA's Risk Management Agency, provides subsidized insurance through private insurance companies that assume a portion of the risk associated with claims payments. Currently, federal crop insurance is available for 75 crops on a county-by-county basis.

Although the program's loss experience is a major factor in determining the cost of federal crop insurance to farmers and to the government, there are no reliable estimates of the extent to which crop insurance claims are paid in error. While USDA's Risk Management Agency estimates that about 5 percent of claims were paid in error in 1997, its methodology for estimating errors was questionable in several respects. As a result, the Risk Management Agency does not know the extent to which private insurance companies are making erroneous crop insurance payments or the effectiveness of individual administrative requirements in minimizing erroneous payments. The Risk Management Agency could strengthen quality controls and reduce erroneous payments if it had a better understanding of the nature and magnitude of payment errors. Better controls over claims payments could potentially save the crop insurance program and the government millions of dollars annually.

To ensure proper control over claims payments, USDA could develop a more statistically valid sampling approach that would develop accurate estimates of error rates for crop insurance claims payments. Although CBO

agrees that better controls over claims payments would produce savings, it cannot develop a savings estimate until a specific proposal is identified.

Related GAO Products

Crop Insurance: USDA Needs a Better Estimate of Improper Payments to Strengthen Controls Over Claims (GAO/RCED-99-266, Sept. 22, 1999).

Crop Insurance: Further Actions Could Strengthen Program's Financial Soundness (GAO/T-RCED-99-161, Apr. 21, 1999).

Crop Insurance: USDA's Progress in Expanding Insurance for Specialty Crops (GAO/RCED-99-67, April 16, 1999).

Crop Insurance: Additional Actions Could Further Improve Program's Financial Soundness (GAO/T-RCED-99-123, Mar. 17, 1999).

GAO Contact

Lawrence J. Dyckman, (202) 512-5138

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

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development and Related Agencies (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Account	Commodity Credit Corporation (12-4336)
Spending type	Discretionary
Budget subfunction	351/Farm income stabilization
Framework theme	Reassess objectives

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

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

Questions remain about the overall economic benefits derived from the Market Access Program. Estimates of the program's macroeconomic impact developed by the Foreign Agricultural Service are overstated and

rely on a methodology that is inconsistent with Office of Management and Budget cost/benefit guidelines. In addition, the evidence from market-level studies is inconclusive regarding program impact on specific commodities in specific markets. Furthermore, it is difficult to ensure that funds for promotional activities are in addition to private sector expenditures because it is hard to determine what would have been spent in the absence of program funds.

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

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	5	73	90	90	90
Outlays	5	73	90	90	90

Source: Congressional Budget Office.

Related GAO Products

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

Appendix III
Options for Increased Savings and Revenue
Gains

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

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

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

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

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

GAO Contact

Benjamin F. Nelson, (202) 512-4128

**370 Commerce and
Housing Credit**

Recapture Interest on Rural Housing Loans
Reduce FHA's Insurance Coverage
Require Self-Financing of Mission Oversight by Fannie Mae and Freddie
Mac

Recapture Interest on Rural Housing Loans

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Banking and Financial Services (House)
Appropriations subcommittees	Agriculture, Rural Development and Related Agencies (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Account	Rural Housing Insurance Fund (12-2081)
Spending type	Direct
Budget subfunction	371/Mortgage credit
Framework theme	Redefine beneficiaries

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

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

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

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the CBO baseline					
Budget authority	45	0	0	0	0
Outlays	45	0	0	0	0

Source: Congressional Budget Office.

Related GAO Product

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

GAO Contact

Stanley J. Czerwinski, (202) 512-7631

Reduce FHA's Insurance Coverage

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

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

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

Appendix III
Options for Increased Savings and Revenue
Gains

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

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

Related GAO Product

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

GAO Contact

Stanley J. Czerwinski, (202) 512-7631

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

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

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

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

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

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the CBO baseline					
Budget authority	10	10	10	10	10
Outlays	10	10	10	10	10

Source: Congressional Budget Office.

Related GAO Products

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

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

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

GAO Contact

Thomas J. McCool, (202) 512-8678

400 Transportation

Redefine Amtrak's Mission to Improve Financial Performance and Reduce Subsidies
Close, Consolidate, or Privatize Some Coast Guard Facilities
Reassess the Coast Guard Deepwater Project
Improve FAA Oversight of General Aviation Airport Land and Revenue
Apply Cost-Benefit Analysis to Replacement Plans for Airport Surveillance Radars
Eliminate Cargo Preference Laws
Improve Department of Transportation's Oversight of Its University Research
Increase Aircraft Registration Fees to Recover Actual Costs
Eliminate the Pulsed Fast Neutron Analysis Inspection System

Redefine Amtrak's Mission to Improve Financial Performance and Reduce Subsidies

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Transportation (Senate and House)
Primary agency	Department of Transportation
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	401/Ground transportation
Framework theme	Reassess objectives

GAO's work has led it to conclude that the Congress must make fundamental choices between its expectations for intercity passenger rail service and the financial assistance that it is willing to provide. Like other intercity passenger rail systems outside the United States, Amtrak receives substantial government support. Since 1971, the federal government has provided over \$23 billion in operating and capital assistance. Ridership in many areas is light: In 13 states, fewer than 100 passengers, on average, boarded an Amtrak train on a given day in 1997. In May 1998, GAO reported that a number of Amtrak's routes lost large sums of money in 1997: 13 routes each lost over \$30 million. Further, 14 of its 40 routes lost more than \$100 for every passenger. Overall in 1999, Amtrak lost \$907 million.

In 1994, at the request of the administration and later at the direction of the Congress, Amtrak pledged to eliminate the need for federal operating subsidies by the end of 2002. However, Amtrak has made relatively little progress in reducing its need for federal operating subsidies and must make nearly four times the progress in the coming 3 years (through 2002) than it has made over the previous 5 years. It is difficult to be confident that Amtrak will eliminate the need for federal operating subsidies by the end of 2002. If Amtrak continues to require federal operating subsidies after 2002, the Amtrak Reform and Accountability Act of 1997 provides for the Congress to consider either restructuring or liquidating the railroad.

To improve Amtrak's financial performance and potentially reduce federal subsidies, GAO has suggested that the Congress decide on the nation's expectation for intercity passenger rail service and the scope of Amtrak's mission in providing that service, as provided by the 1997 Amtrak Reform Act. These decisions involve determining the appropriate scope of

Amtrak's route network and restructuring it accordingly, which could impact the need for financial assistance.

Although CBO agrees that improved financial performance by Amtrak would produce savings, it cannot develop an estimate for this option until specific proposals are identified.

Related GAO Products

Intercity Passenger Rail: Amtrak Faces Challenges in Improving Its Financial Condition (GAO/T-RCED-00-30, Oct. 28, 1999).

Intercity Passenger Rail: Amtrak's Progress in Improving Its Financial Condition Has Been Mixed (GAO/RCED-99-181, July 9, 1999).

Intercity Passenger Rail: Prospects for Amtrak's Financial Viability (GAO/RCED-98-211R, June 5, 1998).

Intercity Passenger Rail: Financial Performance of Amtrak's Routes (GAO/RCED-98-151, May 14, 1998).

Intercity Passenger Rail: Outlook for Improving Amtrak's Financial Health (GAO/T-RCED-98-134, Mar. 24, 1998).

GAO Contact

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

Close, Consolidate, or Privatize Some Coast Guard Facilities

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

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

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

Related GAO Products

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

Appendix III
Options for Increased Savings and Revenue
Gains

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

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

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

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

GAO Contact

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

Reassess the Coast Guard Deepwater Project

Authorizing committees	Commerce, Science, and Transportation (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Transportation (Senate and House)
Primary agency	Department of Transportation
Accounts	Acquisition, Construction, and Improvements (69-0240)
Spending type	Discretionary
Budget subfunction	403/Water transportation
Framework theme	Reassess objectives

The Coast Guard's justification for its Deepwater Project—potentially the largest acquisition project in the agency's history—does not accurately or fully depict the need to replace or modernize its fleet of deepwater ships and aircraft. Proceeding without key data increases the risk that contractors will develop alternatives that are not the most cost-effective to meet the needs of the agency. In addition, the agency's initial estimate that the project may cost \$9.8 billion, or about \$500 million annually over 20 years, would consume more than the agency now spends for all capital projects and leave little funding for other critical capital needs. Unless the Congress appropriates additional funds, which under current budget laws could mean reducing funding for other agencies or programs, the Coast Guard's other capital projects could be severely affected.

To address concerns about the justification and affordability of the project, GAO has recommended that the Coast Guard develop a realistic estimate of needs (based on capabilities of its current fleet of ships and aircraft) that are affordable within planned budget limits. The Coast Guard generally agreed with GAO's recommendations and is addressing them.

CBO cannot provide a savings estimate for this option because the Deepwater Project has not yet been funded.

Related GAO Products

Coast Guard: Strategies for Procuring New Ships, Aircraft, and Other Assets (GAO/T-RCED-99-116, Mar. 16, 1999).

Appendix III
Options for Increased Savings and Revenue
Gains

Coast Guard: Key Budget Issues for Fiscal Years 1999 and 2000
(GAO/T-RCED-99-83, Feb. 11, 1999).

Coast Guard's Acquisition Management: Deepwater Project's Justification and Affordability Need to Be Addressed More Thoroughly
(GAO/RCED-99-6, Oct. 26, 1998).

GAO Contact

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

Improve FAA Oversight of General Aviation Airport Land and Revenue

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

There are deficiencies with the Federal Aviation Administration's (FAA) oversight and enforcement of federal requirements at general aviation airports. Despite policy that requires FAA's Airports field offices to monitor general aviation airports for compliance with requirements that come with federal land or funding, only four of 23 responsible offices did so. Moreover, the monitoring programs at these 4 offices relied on airports to certify their adherence to federal requirements with little or no independent oversight or review. The Department of Transportation's (DOT) Inspector General has previously concluded that such self-certifications were ineffective for ensuring compliance with federal requirements which restrict the use of airport revenues to airport-related purposes. Failure to develop and implement adequate internal controls for oversight and enforcement have left the federal investment in general aviation airports exposed to mismanagement, fraud, waste, and abuse. Inadequate monitoring has allowed instances of unauthorized land use to go undetected for decades and resulted in increased aviation safety risks and the loss or diversion of millions of dollars in airport revenue. For example, airport land has been inappropriately used for mobile home parks; little league baseball fields; dog pounds; duck-hunting blinds; and city police, fire, and vehicle maintenance facilities. In some cases, increased risks to aviation safety also resulted. For example, FAA determined that birds attracted by an unauthorized landfill at an airport posed a possible danger to aircraft. The DOT Inspector General identified almost \$6.8 million in lost or diverted revenues at five airports where the unauthorized use of airport land occurred. FAA has not used its regulatory powers to enforce unauthorized land use or revenue loss/diversion cases and, instead, relies on negotiations to resolve such unauthorized land use. Because FAA does not monitor these airports, it cannot determine how

Appendix III
Options for Increased Savings and Revenue
Gains

frequently unauthorized land use has occurred or how much revenue has been lost or diverted.

To improve FAA's internal controls and detect instances of revenue diversion, GAO has recommended, among other things, that FAA require its field offices to regularly monitor general aviation airports that have received federal lands or funding to ensure that federal requirements for the use of airport land and revenues are met. Savings from this option would depend on the extent to which revenue diversion is occurring at general aviation airports. Accordingly, CBO has not prepared a savings estimate for this option.

Related GAO Products

General Aviation Airports: Oversight and Funding (GAO/T-RCED-99-214, June 9, 1999).

General Aviation Airports: Unauthorized Land Use Highlights Need for Improved Oversight and Enforcement (GAO/RCED-99-109, May 7, 1999).

GAO Contact

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

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

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

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

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

GAO recommended that FAA apply its benefit-cost criteria to all 101 airports where it plans to replace the ASR-7 and ASR-8 radars. In response to GAO's recommendation, FAA plans to apply the criteria only to the 75 airports that have less traffic than the airport whose radar was recently

**Appendix III
Options for Increased Savings and Revenue
Gains**

denied. By not applying its cost-benefit analysis to the remaining airports, FAA may ultimately replace some radars that do not meet its benefit-cost criteria. Savings resulting from this option would depend on the findings of a FAA benefit-cost study of all 101 airports. Accordingly, CBO has not prepared a savings estimate for this option.

Related GAO Product

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

GAO Contact

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

Eliminate Cargo Preference Laws

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

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

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

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	177	272	371	380	389
Outlays	148	252	351	374	387

Note: The termination of cargo preference requirements for all government-sponsored cargoes would probably cause additional defaults on outstanding loans guaranteed by the Maritime Administration.

Source: Congressional Budget Office.

Related GAO Product

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

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

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

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

GAO Contact

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

Improve Department of Transportation's Oversight of Its University Research

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

The Department of Transportation (DOT) conducts research to enhance safety, mobility, environmental quality, efficiency, and economic growth in the nation's transportation system. The results of DOT's research programs include prototypes of systems, new operating procedures, data used to focus policy decisions, and regulations. Within DOT several offices are responsible for the oversight of research and development activities. In addition, each of DOT's operating administrations is responsible for reviewing and monitoring its own research to ensure that the university awards' objectives are met and the costs are appropriate.

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

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

Appendix III
Options for Increased Savings and Revenue
Gains

policies and procedures to carry out their responsibilities for monitoring awards.

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

Related GAO Product

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

GAO Contact

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

Increase Aircraft Registration Fees to Recover Actual Costs

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

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

In 1993, GAO reported that the Federal Aviation Administration (FAA) was not fully recovering the cost of processing aircraft registration applications and estimated that, by not increasing fees since 1968 to recover costs, FAA had foregone about \$6.5 million in additional revenue. To recover the costs of services provided to aircraft registrants, GAO has recommended that FAA increase its aircraft registration fees to more accurately reflect actual costs. The FAA plans to complete changes to its aircraft registration registry system by mid 2001. Per the Drug Enforcement Assistance Act, FAA will coordinate these changes with the Drug Enforcement Agency and the U.S. Customs Service and if the agencies approve the changes, FAA will prepare legislation for congressional approval for a rate increase for registration fees.

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

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Added receipts	1	1	1	1	1

Source: Congressional Budget Office.

Related GAO Product

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

GAO Contact

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

Eliminate the Pulsed Fast Neutron Analysis Inspection System

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

One type of technology under development for detecting explosives and narcotics is a pulsed fast neutron analysis (PFNA) inspection system. PFNA is designed to directly and automatically detect and measure the presence of specific materials (e.g., cocaine) by exposing their constituent chemical elements to short bursts of subatomic particles called neutrons. Customs, Department of Defense, and Federal Aviation Administration officials do not believe that the current PFNA system would meet their operational requirements because it is too expensive (\$10 million per unit to acquire) and too large for operational use in most ports of entry or other sites. Operational testing was due to begin by the end of 1999 at an estimated cost of between \$5 million and \$8 million.

Eliminating PFNA—a system that the agencies do not want—would result in the following savings.

Five-Year Savings

Dollars in millions	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	3	3	3	3	3
Outlays	2	3	3	3	3

Source: Congressional Budget Office.

**Appendix III
Options for Increased Savings and Revenue
Gains**

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

GAO Contact	Laurie E. Ekstrand, (202) 512-8777
--------------------	------------------------------------

**450 Community and
Regional Development**

- Limit Eligibility for Federal Emergency Management Agency Public Assistance
- Eliminate the Flood Insurance Subsidy on Properties That Suffer the Greatest Flood Loss
- Eliminate Flood Insurance For Certain Repeatedly Flooded Properties

Limit Eligibility for Federal Emergency Management Agency Public Assistance

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

The Federal Emergency Management Agency's (FEMA) Public Assistance Program helps pay state and local governments' costs of repairing and replacing eligible public facilities and equipment damaged by natural disasters. Many private nonprofit organizations, such as schools, hospitals, and utilities are also eligible for assistance. Over the years, regulations and policies implementing legislation under the program reflect an increasingly expansive approach to federal disaster assistance. The cost of the program has increased dramatically in recent years, but a number of options identified by program officials in FEMA's 10 regional offices, if implemented, could reduce program costs. Among the options recommended most strongly were placing limits on the appeals process; eliminating eligibility for some facilities that generate revenue, lack required insurance, or are not delivering government services; and limiting the impact of codes and standards (e.g., upgrade only disaster-damage portions of structures, better define who has the authority to adopt and approve codes and standards, and limit the time period for adopting new codes). FEMA has taken action to address some of these options. For example, FEMA has reduced the number of appeals for program decisions from three to two, it has clarified certain policies and criteria to make eligibility determinations less subjective, and work is continuing on the applicability of building codes and standards for upgrades. However, FEMA has not addressed some other identified options, such as eliminating eligibility for all private nonprofit organizations—many of which are revenue-generating facilities such as utilities, hospitals, and universities—or eliminating funding for publicly-owned recreational facilities (e.g., boat docks, piers, golf courses, etc.) which generate portions of their operational revenue through user fees, rents, admission charges, or similar fees.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Although increased disaster activity is a factor in rising program costs, changes in the amount and types of assistance provided and recipients eligible for assistance have also been a factor. Revising eligibility of these types of facilities for assistance funding could reduce program costs. To improve the efficiency of the program and reduce program costs, the Congress could direct FEMA to continue its efforts to issue criteria that more clearly and comprehensively identify what facilities and work are eligible for public assistance and develop a system for disseminating these criteria and future changes in the criteria to FEMA regional staff. CBO estimates that eliminating eligibility for all private nonprofit organizations would yield the following savings.

Five-Year Savings					
Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	46	46	46	46	46
Outlays	2	14	25	37	44

Source: Congressional Budget Office.

Related GAO Products

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

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

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

GAO Contact

Stanley J. Czerwinski, (202) 512-7631

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

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

The National Flood Insurance Program is not actuarially sound because about a third of the 4.1 million policies in force are subsidized. Federal Insurance Administration officials estimate that total premium income from subsidized policyholders is currently about \$500 million less than it would be if these rates had been actuarially based and participation had remained the same. According to a Federal Insurance Administration official, if true actuarial rates were charged, insurance rates on currently subsidized policies would need to rise, on average, slightly more than twofold (to an annual average premium of about \$1,300). Significant rate increases for subsidized policies, including charging actuarial rates, would likely cause some owners of properties built before the publication of the Flood Insurance Rate Map to cancel their flood insurance. However, the ultimate cost or savings to the federal government would depend on the actions of property owners. If these property owners, who suffer the greatest flood loss, canceled their insurance and subsequently suffer losses due to future floods, they could apply for low-interest loans from the Small Business Administration or grants from Federal Emergency Management Agency (FEMA), which would increase the overall cost to the federal government.

FEMA recently received a contractor's study concerning the economic effects of eliminating subsidized rates. Depending on the results of the study, FEMA should consider eliminating the National Flood Insurance Program's subsidy for properties that are more likely to suffer losses.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Net increase in offsetting receipts					
Budget authority	0	0	0	0	0
Outlays (net increased receipts)	49	163	237	260	284

Source: Congressional Budget Office.

Related GAO Products

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

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

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

GAO Contact

Stanley J. Czerwinski, (202) 512-7631

Eliminate Flood Insurance For Certain Repeatedly Flooded Properties

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

Repetitive flood losses are one of the major factors contributing to the financial difficulties facing the National Flood Insurance Program. A repetitive-loss property is one that has two or more losses greater than \$1,000 each within any 10-year period. Approximately 43,000 buildings currently insured under the National Flood Insurance Program have been flooded on more than one occasion and have received flood insurance claims payments of \$1,000 or more for each loss. These repetitive losses account for about 36 percent of all program claims historically (currently about \$200 million annually) even though repetitive-loss structures make up a very small portion of the total number of insured properties—at any one time between 1 to 2 percent. The cost of these multiple-loss properties over the years to the program has been \$2 billion. Under its repetitive-loss strategy, the Federal Insurance Administration intends to target for mitigation the most flood-prone repetitive-loss properties, such as those that are currently insured and have had four or more losses by acquiring, relocating, or elevating them. These properties (about 10,000) are responsible for at least \$65 million of the \$200 million in insurance claims estimated to be paid annually for repetitive-loss properties.

One option that would increase savings would be for Federal Emergency Management Agency to consider eliminating flood insurance for certain repeatedly flooded properties.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the CBO baseline					
Budget authority	0	0	0	0	0
Outlays	58	62	67	72	77

Source: Congressional Budget Office.

Related GAO Products

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

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

GAO Contact

Stanley J. Czerwinski, (202) 512-7631

**500 Education,
Training, Employment,
and Social Services**

Consolidate Student Aid Programs

Consolidate Student Aid Programs

Authorizing committees	Health, Education, Labor and Pensions (Senate) Education and the Workforce (House)
Appropriations subcommittees	Labor, HHS, Education and Related Agencies (Senate) Labor, Health and Human Services, and Education (House)
Primary agency	Department of Education
Account	Student Financial Assistance (91-0200)
Spending type	Discretionary
Budget subfunction	502/Higher education
Framework theme	Improve efficiency

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

Although the student loan and Pell grant programs provide the majority of federal financial aid to students for postsecondary education, another 12 smaller programs are targeted to specific segments of the postsecondary school population. The programs fund remedial and support services for prospective students from disadvantaged families, programs to enhance the labor pool in designated specialties, grants to students for volunteer activities, and grants to women and minorities who are underrepresented in graduate education.

These 16 programs, which were funded at \$1.2 billion total in fiscal year 1999, could be candidates for consolidation. For example, programs directed at attracting minority and disadvantaged students could be consolidated into one program. Or a certain amount of funds could be

**Appendix III
Options for Increased Savings and Revenue
Gains**

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

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

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	136	136	136	136	136
Outlays	34	113	134	136	136

Source: Congressional Budget Office.

Related GAO Products

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

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

GAO Contact

Cynthia M. Fagnoni, (202) 512-7215

550 Health

Create a Single Federal Agency to Administer a Unified Food Inspection System
Charge Beneficiaries for Food Inspection Costs
Implement Risk-Based Meat and Poultry Inspections
Convert Public Health Service Commissioned Corps Officers to Civilian Status
Control Prescription Drug and Medicaid Fraud
Prevent States From Using Illusory Approaches to Shift Medicaid Program Costs to the Federal Government
Improve Fairness of Medicaid Matching Formula

Create a Single Federal Agency to Administer a Unified Food Inspection System

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	554/Consumer and occupational health and safety
Framework theme	Improve efficiency

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

However, the federal system to ensure the safety and quality of the nation's food is inefficient, outdated, and does not adequately protect the consumer against food-borne illness. In addition to FSIS and FDA, 10 other agencies administer over 35 different laws that oversee food safety. The current food safety system suffers from overlapping and duplicative inspections, poor coordination, and inefficient allocation of resources.

To improve the effectiveness and efficiency of the federal food safety system, the Congress could consider consolidating federal food safety agencies and activities under a single, risk-based food safety inspection agency with a uniform set of food safety laws. CBO agrees that this option could potentially yield savings, but did not develop a savings estimate due to the uncertainty of the extent to which improved efficiencies actually lead to budgetary savings.

Related GAO Products

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

Appendix III
Options for Increased Savings and Revenue
Gains

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

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

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

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

GAO Contact

Lawrence J. Dyckman, (202) 512-5138

Charge Beneficiaries for Food Inspection Costs

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	554/Consumer and occupational health and safety
Framework theme	Redefine beneficiaries

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

Historically, federal food inspection agencies recover through user fees only about \$400 million of the \$1.6 billion they spend annually to inspect, test, grade, and approve agricultural commodities and products. Federal appropriations fund the remaining 75 percent of these agencies expenses. Overall, federal food inspection agencies could recover an additional \$700 million each year from the beneficiaries of food-related inspection and testing services through user fees. For example, CBO estimates the

**Appendix III
Options for Increased Savings and Revenue
Gains**

following savings could be achieved if meat and poultry inspections were funded through user fees instead of appropriations.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	295	590	590	590	590
Outlays	295	590	590	590	590

Note: This estimate assumes the policy will become effective October 1, 2000. This analysis excludes egg inspection costs, Grants-to-States, and Special Assistance for State Programs from the user fee program. This estimate assumes that only 50 percent of fees will be collected in the first year because of industry opposition and administrative delays.

Source: Congressional Budget Office.

Related GAO Products

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

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

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

GAO Contact

Lawrence J. Dyckman, (202) 512-5138

Implement Risk-Based Meat and Poultry Inspections

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Accounts	Food Safety and Inspection Service
Spending type	Discretionary
Budget subfunction	554/Consumer and occupational health and safety
Framework theme	Redefine beneficiaries

Foodborne illness in the United States is extensive and expensive. Foodborne diseases cause an estimated 325,000 serious illnesses resulting in hospitalizations, 76 million cases of foodborne illnesses, and 5,000 deaths each year. In terms of medical costs and productivity losses, foodborne illness costs the nation between \$7 billion and \$37 billion annually, according to USDA's estimates.

USDA's meat and poultry inspection system does not efficiently and effectively use its resources to protect the public from foodborne illness. USDA's system is hampered by inflexible legal requirements and relies on outdated, labor-intensive inspection methods. Under current law, each of the over 8 billion livestock and bird carcasses slaughtered annually must be inspected. Further, USDA's Food Safety and Inspection Service (FSIS) states that current law requires it to inspect each of the approximately 5,900 processing plants at least once during each operating shift. While these inspections consume most of FSIS' budget (\$676 million and 9,700 staff-years), they are unable to detect microbial contamination, such as listeria, E. coli, and salmonella. While USDA has increased its microbial testing, inspectors still rely on their sense of sight, smell, and touch to make judgments about disease conditions, contamination, and sanitation.

Legislative revisions could allow FSIS to emphasize risk-based inspections. Much of the funding used to fulfill current meat and poultry inspection activities could be redirected to support more effective food safety initiatives, such as helping small slaughter and processing plants fund the installation of risk-based inspection systems or increasing the frequency of

Appendix III
Options for Increased Savings and Revenue
Gains

inspections at other food plants. CBO agrees that this option could potentially yield savings, but cannot develop an estimate until specific proposals are identified.

Related GAO Products

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

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

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

GAO Contact

Lawrence J. Dyckman, (202) 512-5138

Convert Public Health Service Commissioned Corps Officers to Civilian Status

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

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

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

Corps officials maintained that uniformed Corps members are needed as mobile cadres of professionals who can be assigned with little notice to any

location and function, often in hazardous or harsh conditions. However, other agencies, such as the Environmental Protection Agency, the National Transportation Safety Board, and the Federal Emergency Management Agency, use civilian employees to respond quickly to disasters and other emergency situations that could involve both hazardous or harsh conditions.

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

Although CBO estimates that converting officers with fewer than 15 years of service to civilian status would result in a net cost to the federal government during the initial 5-year estimation period, it agrees that annual savings of millions of dollars would continue to grow as new entrants continue to be hired at a lower cost than PHS Corps recruits.²

Related GAO Products

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

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

GAO Contact

Michael Brostek, (202) 512-3909

²CBO's estimate assumed that the conversion would be effective January 1, 2001. The estimate further assumed that converted officers would not incur any reduction in pay but that new entrants would be hired at a lower cost than previously incurred for PHS Corps recruits.

Control Prescription Drug and Medicaid Fraud

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

While the Medicaid program is increasingly turning to managed care as a solution for higher costs, about 47 percent of all 1998 recipients still obtained prescription drugs from vendors. The Medicaid program typically includes prescription drugs in its covered services, and diversion of these medications has been a problem for at least a decade. Such diversion can involve pharmacists routinely adding drugs to legitimate prescriptions and keeping the overage for themselves or for sale to others; clinics providing inappropriate prescriptions to Medicaid recipients who trade them for cash or merchandise or have them filled and then sell the drugs themselves; and individuals who provide recipients with abusable drugs in exchange for subsequent illicit use of their Medicaid recipient numbers. Participants in drug diversion schemes therefore frequently face added charges of fraud, false claims, or other related violations of state or federal law.

The financial incentives for diverting drugs are substantial and apply to both controlled and noncontrolled substances. Legal controlled drugs—those with significant potential for physical or psychological harm—are appealing because they are relatively cheap and chemically pure compared to illicit drugs. Profits from street sales can amount to several thousand percent of initial investment. One drug costing the pharmacy less than 50 cents per pill sold on the street for \$85 per pill. Noncontrolled drugs, also, have recently become popular targets for diversion because they are comparatively easier to obtain and are particularly desirable if obtained under an insurance program—such as Medicaid—requiring little or no copayment. With no or minimal outlay on the part of the recipient, the

street price—while typically lower than the pharmacy price and thus attractive to buyers—is entirely profit.

Medicaid accounts for 80 percent of all federal spending on prescription drugs. In fiscal year 1998, Medicaid’s drug benefit cost about \$13.5 billion. While precise dollar losses due to diversion—as with all fraud—are impossible to identify, New York State officials estimate that in 1990, these losses represented about 10 percent of the state’s total Medicaid spending for prescription drugs.

States have various initiatives under way to curb Medicaid prescription drug diversion but are hampered by insufficient resources, lengthy and frequently unproductive investigations, and the prevalence of repeat offenders and resilient schemes. Based on considerable previous work, GAO believes that the Health Care Financing Administration should assume an active leadership role in orchestrating and encouraging states’ efforts and fostering the development and implementation of preventive measures. The Department of Health and Human Services (HHS) generally agrees with GAO’s findings and recommendation, but believes it is not feasible unless new staff resources can be identified and allocated.

The Congress may wish to encourage HHS to take a stronger role. If states curbed these losses by even a small percentage, future Medicaid costs would be reduced substantially. However, CBO cannot develop an estimate of the savings for this option until specific strategies are identified. Moreover, savings would be net of the additional resources required to curb fraudulent activities.

Related GAO Products

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

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

Medicare and Medicaid: Opportunities to Save Program Dollars by Reducing Fraud and Abuse (GAO/T-HEHS-95-110, Mar. 22, 1995).

Prescription Drugs: Automated Prospective Review Systems Offer Significant Potential Benefits for Medicaid (GAO/AIMD-94-130, Aug. 5, 1994).

**Appendix III
Options for Increased Savings and Revenue
Gains**

Medicaid: A Program Highly Vulnerable to Fraud (GAO/T-HEHS-94-106, Feb. 25, 1994).

Medicaid Drug Fraud: Federal Leadership Needed to Reduce Program Vulnerabilities (GAO/HRD-93-118, Aug. 2, 1993).

Medicaid Prescription Drug Diversion: A Major Problem, but State Approaches Offer Some Promise (GAO/T-HRD-92-48, July 29, 1992).

Prescription Drug Monitoring: States Can Readily Identify Illegal Sales and Use of Controlled Substances (GAO/HRD-92-115, July 21, 1992).

GAO Contact

William J. Scanlon, (202) 512-7114

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

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

GAO raised a concern that in fiscal year 1993, Michigan, Texas, and Tennessee used illusory financing approaches to obtain about \$800 million in federal Medicaid funds without effectively committing their share of matching funds. Under these approaches, facilities that received increased Medicaid payments from the states, in turn, paid the states almost as much as they received. Consequently, the states realized increased revenue that was used to reduce their state Medicaid contributions, fund other health care needs, and supplement general revenue funding. For the period from fiscal year 1991 to fiscal year 1995, Michigan alone reduced its share of Medicaid costs by almost \$1.8 billion through financing partnerships with medical providers and local units of government. GAO's analysis of Michigan's transactions showed that even though legislation curtailed certain creative financing practices, the state was able to reduce its share of Medicaid costs at the expense of the federal government by \$428 million through other mechanisms.

The practices that involve payments to state-owned facilities have been restricted by (1) the Omnibus Budget Reconciliation Act of 1993 provisions that limit such payments to unreimbursed Medicaid and uninsured costs and (2) the Balanced Budget Act of 1997 provisions that further limit Medicaid payments to state psychiatric hospitals. However, states can continue to make payments to local government-owned facilities, including payments that exceed costs, and have the facilities return the payments to the states. States are not required to justify the need for increased reimbursements, nor is the Health Care Financing Administration required

to verify that moneys are used for the purpose for which they were obtained.

GAO believes that the Medicaid program should not allow states to benefit from illusory arrangements and that Medicaid funds should only be used to help cover the costs of medical care incurred by those medical facilities that provide the care. GAO believes the Congress should enact legislation to minimize the likelihood that states can develop arrangements whereby providers return Medicaid payments to the states, thus effectively reducing the state's share of Medicaid funding. This legislation should prohibit Medicaid payments that exceed costs to any government-owned facility.

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

Related GAO Products

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

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

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

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

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

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

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

GAO Contact

William J. Scanlon, (202) 512-7114

Improve Fairness of Medicaid Matching Formula

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

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

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

**Appendix III
Options for Increased Savings and Revenue
Gains**

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

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the CBO baseline					
Budget authority	6,566	7,119	7,704	8,396	9,149
Outlays	6,566	7,119	7,704	8,396	9,149

Source: Congressional Budget Office.

Related GAO Products

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

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

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

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

GAO Contact

William J. Scanlon, (202) 512-7114

570 Medicare

Design New Payment System So That Medicare Does Not Overpay for Home Health Care
Modify the Skilled Nursing Facility Payment Method to Ensure Appropriate Payments
Adjust Medicare Payment Allowances to Reflect Changing Technology, Costs, and Market Prices
Increase Medicare Program Safeguard Funding
Evaluate the Reasonableness of Medicare Payments for New Technology Procedures
Continue to Reduce Excess Payments to Medicare+Choice Health Plans
Reassess Medicare Incentive Payments in Health Care Shortage Areas

Design New Payment System So That Medicare Does Not Overpay for Home Health Care

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

Between 1990 and 1997, Medicare spending for home health care rose at an annual rate of 25.2 percent, making it one of Medicare's fastest growing benefits. By 1997, home health care consumed about \$1 of every \$11 of Medicare outlays, or about \$17.8 billion. Evidence indicates that at least some of the spending is attributable to inappropriate billings and unnecessary care. To begin to control spending, the Balanced Budget Act of 1997 (BBA), as amended, mandated a prospective payment system (PPS), which will be implemented on October 1, 2000. PPS will pay a fixed, predetermined rate for each 60-day episode of care. The rate will be varied by a case-mix adjustment method that aims to adequately pay for patients with high service needs, yet not overpay for others with lower needs. Designing this mechanism requires detailed information, some of which is not yet available, about services and beneficiary characteristics. Currently, there are large unexplained variations in patients' needs and services provided. For example, in 1996, Medicare beneficiaries in one region of the country received more than twice as many home health visits on average as beneficiaries in another region. Also, the absence of standards for when a home health visit is needed, what services constitute a visit, or how long a visit lasts hinder these efforts. However, more information is being collected and will be useful in improving PPS.

Until necessary information on home health standards is available and the large variations in home health use are better understood, the potential still exists for Medicare to pay excessively for the services delivered to beneficiaries. That is, if the PPS rate is set too high relative to the actual

cost of providing services, the PPS rate could provide a windfall for some home health agencies, thereby reducing the incentive for providers to be efficient. Consequently, limits should be placed on the profits that agencies can earn under the new PPS.

These limits can also discourage agencies from stinting on needed care in order to boost profit margins. That is, without profit limits, agencies could receive a payment for an episode of care, reduce services below what the same payment amount had previously purchased, and pocket the difference. Medicare would not be able to effectively challenge these service reductions because there are no standards for what constitutes necessary home health care. With profit limits, the agencies have less incentive to cut needed services because they would not be able to keep all of the excess revenue.

Once sufficient information is available to establish criteria for necessary home health care and refine case-mix adjustments, profit limits could be removed. An improved PPS would better target payments to reward providers for delivering care efficiently and protect Medicare from overpaying for home health care services. CBO cannot develop an estimate of the savings for this option until specific strategies are identified.

Related GAO Products

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

GAO Contact

William J. Scanlon, (202) 512-7114

Modify the Skilled Nursing Facility Payment Method to Ensure Appropriate Payments

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

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

Problems with the design of the PPS, inadequate data used to establish rates, and inadequate planned oversight of claims for payment, however, could compromise Medicare’s ability to stem spending growth while maintaining beneficiary access. GAO is concerned that the PPS preserves the opportunity for providers to increase their compensation by supplying potentially unnecessary services. Furthermore, the payment rates were computed using data that overstate the reasonable cost of providing care and may not appropriately reflect the differences in costs for patients with different care needs. In addition, as a part of the system, Medicare appears to have established new criteria for determining eligibility for the Medicare SNF benefit, which could expand the number of beneficiaries who will be covered and the length of covered stays. The planned oversight of claims to determine if a beneficiary is entitled to Medicare coverage and how much payment a SNF should receive is insufficient, increasing the potential to compromise expected savings.

GAO believes that HCFA should modify the SNF PPS regulations to address these concerns. Medicare needs to ensure that the payment rates reflect only necessary services that the facilities actually provide. Medicare should also increase its vigilance over claims review and provider oversight so that payments are appropriate and made only for eligible beneficiaries.

CBO agrees that improved payment methods and oversight could reduce spending. However, by convention, CBO only estimates the costs or savings of proposals that change current law, not administrative changes.

Related GAO Products

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

Skilled Nursing Facilities: Medicare Payments Need to Better Account for Nontherapy Ancillary Cost Variation (GAO/HEHS-99-185, Sept. 30, 1999).

Medicare Post-Acute Care: Better Information Needed Before Modifying BBA Reforms (GAO/T-HEHS-99-192, Sept. 15, 1999).

Balanced Budget Act: Any Proposed Fee-for-Service Payment Modifications Need Thorough Evaluation (GAO/T-HEHS-99-139, June 10, 1999).

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

Balanced Budget Act: Implementation of Key Medicare Mandates Must Evolve to Fulfill Congressional Objectives (GAO/T-HEHS-98-214, July 16, 1998).

Long-Term Care: Baby Boom Generation Presents Financing Challenges (GAO/T-HEHS-98-107, Mar. 9, 1998).

Medicare Post-Acute Care: Home Health and Skilled Nursing Facility Cost Growth and Proposals for Prospective Payment (GAO/T-HEHS-97-90, Mar. 4, 1997).

GAO Contact

William J. Scanlon, (202) 512-7114

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

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

Medicare’s supplementary medical insurance program (Medicare Part B) allowed almost \$6 billion for durable medical equipment, supplies, prosthetics, orthotics, enteral and parenteral nutrition, and outpatient drugs in 1998. For most medical equipment and supplies, Medicare payments are primarily based on historical charges, indexed forward, rather than current costs or market prices. For example, the Medicare payments for such items as walkers, catheters, and glucose test strips are based on supplier charges allowed in 1986 and 1987.

GAO has reported that Medicare payments for some medical equipment and supplies are out of line with market prices. This can occur when providers’ costs for some procedures, equipment, and supplies have declined over time as competition and efficiencies increased. In other cases, medical innovations and advances have increased the cost of some procedures and products. However, Medicare did not have a process to routinely and systematically review these factors and make timely adjustments to the Medicare allowances. In fact, through the years, the Congress has legislatively adjusted Medicare allowances for some products and services, such as home oxygen, clinical laboratory tests, intraocular lenses, computed tomography scans and magnetic resonance imaging scans.

The Balanced Budget Act of 1997 provided the Health Care Financing Administration (HCFA) the authority to make more timely adjustments to Medicare Part B allowances by up to 15 percent per year. (This authority

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

HCFA is exploring the use of universal product numbers as a way to improve Medicare's ability to pay for medical equipment and supplies. In September 1999, HCFA awarded a one-year contract to an outside consultant to gather information on universal product numbers and determine how they could be integrated into the Medicare claims processing system. CBO is also collecting data on a Universal Product Code-based payment system and is unable to provide saving estimates at this time.

There are a number of other options that could also help bring Medicare allowances more into line with costs and market prices. For example, the Congress has authorized HCFA to implement a competitive bidding demonstration project for some Part B services and suppliers (except physician services). In May 1998, HCFA announced plans to test the competitive bidding process for oxygen supplies and equipment, hospital beds and accessories; surgical dressings; enteral nutrition products and supplies; and urological supplies in Polk County, Florida. In the spring of 1999, HCFA selected competing suppliers to provide these items to Medicare beneficiaries at reduced payment rates. These local payment rates took effect in October 1999 and will remain in place for two years. A second competitive bidding demonstration project is planned for another location with new product categories in 2001. Another approach is basing Medicare payments on the lower of the fee schedule allowance or the lowest amount a provider has agreed to accept from other payers. HCFA would need legislative authority to pursue this option. Yet another approach is for HCFA to base Medicare allowances on the competitive

contracts awarded by other large payers, such as the Department of Defense or the Department of Veterans' Affairs (VA). In August 1999, HCFA issued a proposed notice to reduce Medicare payments for certain items of medical equipment and prosthetics using VA contract prices as a basis and adjusting those prices to account for supplier costs. This action is on hold pending the issuance of a GAO report on HCFA's implementation of its authority to adjust prices and on the issuance of a final implementation rule. In addition, separate fee schedules could be developed to distinguish between wholesale and retail acquisition to ensure that large suppliers do not receive inappropriately large Medicare reimbursements. While CBO agrees that aligning Medicare allowances with costs and market prices could yield savings, it cannot develop an estimate until HCFA has completed its demonstration projects and implemented specific proposals.

Related GAO Products

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

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

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

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

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

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

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

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

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

**Appendix III
Options for Increased Savings and Revenue
Gains**

GAO Contact

William J. Scanlon, (202) 512-7114

Increase Medicare Program Safeguard Funding

Authorizing committees	Finance (Senate) Commerce (House) Ways and Means (House)
Appropriations subcommittees	Labor, HHS, Education and Related Agencies (Senate) Labor, Health and Human Services, and Education (House)
Primary agency	Department of Health and Human Services
Accounts	Federal Hospital Insurance Trust Fund (20-8005) Federal Supplementary Medical Insurance Trust Fund (20-8004) Program Management (75-0511)
Spending type	Discretionary/Direct
Budget subfunction	571/Medicare
Framework theme	Improve efficiency

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

While funding has increased, in 2002 it will still remain below program safeguard funding levels in the previous decade, adjusted for inflation. Comparing program safeguard expenditures between fiscal years 1995 and 1998—2 years before and after MIP implementation—shows that

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

GAO believes that additional program safeguard funding might better protect Medicare against erroneous payments and yield net savings. HCFA, however, first needs to improve its data to measure the effects of increased funding. HCFA needs a better understanding of costs and savings from particular activities—such as desk reviews and cost audits. It also needs to consistently code savings from different activities to understand their relative value, as well as determine which contractors are realizing the highest return on investment from their program safeguard activities.

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

Related GAO Products

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

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

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

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

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

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

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

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

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

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

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

Medicare: Control Over Fraud and Abuse Remains Elusive (GAO/T-HEHS-97-165, June 25, 1997).

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

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

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

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

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

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

Medicare: Adequate Funding and Better Oversight Needed to Protect Benefit Dollars (GAO/T-HRD-94-59, Nov. 12, 1993).

**Appendix III
Options for Increased Savings and Revenue
Gains**

Medicare: Further Changes Needed to Reduce Program and Beneficiary Costs (GAO/HRD-91-67, May 15, 1991).

Medicare: Cutting Payment Safeguards Will Increase Program Costs (GAO/T-HRD-89-06, Feb. 28, 1989).

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

GAO Contact

William J. Scanlon, (202) 512-7114

Evaluate the Reasonableness of Medicare Payments for New Technology Procedures

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

When new medical technologies first come into use, providers' unit costs often are high because of less efficient rendering of a service due to inexperience, large capital expenditures and low initial utilization rates. When Medicare sets its payment rates for these new services, the rates typically are based on the high initial unit costs. Over time, providers' unit costs decline as equipment improves, utilization increases, and experience in performing the service results in efficiencies. However, Medicare does not have a process for routinely and systematically assessing these factors and adjusting its fee schedule payment rates to reflect the declining unit costs. The Congress has reacted to the identification of specific overpaid procedures and services by legislatively reducing rates. For example, payments have been reduced for overpriced surgeries and magnetic resonance imaging scans.

The Health Care Financing Administration (HCFA) has initiatives underway which may help bring some Medicare payment rates more in line with actual costs and market prices, including a HCFA demonstration project, now mandated by the Balanced Budget Act of 1997, which will evaluate a competitive bidding process to set Medicare payment levels for some medical equipment and services. Laboratory services are among those being considered for competitive bidding.

These projects may eventually bring some Medicare payment rates more in line with actual costs and market rates, but none of these projects specifically targets expensive, evolving technologies. GAO believes

significant program savings would result from an ongoing, systematic process for evaluating the reasonableness of Medicare payment rates for new medical technologies as those technologies mature.

Savings have not been estimated because revising the Medicare Fee Schedule potentially encompasses all procedures, and any savings would depend on the particular technologies for which Medicare payment rates are reduced.

Related GAO Products

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

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

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

Medicare: Further Changes Needed to Reduce Program and Beneficiary Costs (GAO/HRD-91-67, May 15, 1991).

GAO Contact

William J. Scanlon, (202) 512-7114

Continue to Reduce Excess Payments to Medicare+Choice Health Plans

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

The Balanced Budget Act of 1997 (BBA) created Medicare+Choice to encourage the wider availability of health maintenance organizations (HMO) and permit other types of health plans, such as preferred provider organizations, to participate in Medicare. BBA also modified the methodology used to pay plans, in part because of the fact that the government was paying more to cover beneficiaries in managed care than it would have if these individuals had remained in traditional fee-for-service programs. Payments to health plans were based on the estimated average cost of fee-for-service beneficiaries in a county; however, plans tended to enroll beneficiaries with better-than-average health who had lower-than-average health care costs. BBA used 1997 payment rates as the foundation for rates in 1998 and future years. GAO has suggested that Medicare address the problem of excess payments to HMOs by pursuing a number of strategies.

The base payment rates could be recalculated to include the cost of all Medicare beneficiaries in the county. The current rate does not include HMO enrollees' costs. Consequently, the base rate is overstated in counties where the HMO enrollees were healthier than the fee-for-service population in 1997, leading to overpayments to HMOs.

Furthermore, a forecast error in the 1997 rates could be corrected. According to the Health Care Financing Administration (HCFA) actuaries, the error caused the 1997 rates to be an estimated 4.2 percent too high and, consequently, aggregate plan payments in 1998 were \$1.3 billion too high.

The excess payments resulting from this forecast error will increase over time as managed care enrollment rises. BBA permits HCFA to correct forecasts in future years but did not include a provision to allow a correction of its 1997 forecast.

In addition, an improved risk adjustment method would adjust payment rates on the basis of a beneficiary's expected annual health care costs so that payments will vary for healthier or sicker than average beneficiaries. BBA mandates a health-based risk adjuster that HCFA intends to implement in two stages. Beginning in 2000, HCFA plans to phase in an interim method based on inpatient hospital data. In 2004, a more comprehensive method will be used that incorporates additional medical data from other settings. The interim risk adjustment, if fully phased in, would likely reduce payments by about 7 percent. With health-based risk adjustment, Medicare managed care plans can expect to be paid more for serving beneficiaries with serious health problems and less for serving relatively healthy beneficiaries.

Shifting to competitive determination of Medicare+Choice rates may also help save the government money when Medicare beneficiaries enroll in health plans. Competitive bidding demonstrations were authorized by BBA but the Consolidated Appropriations Act, which passed the House and Senate in November 1999, enacts by cross-reference H.R. 3426, Medicare, Medicaid, and SCHIP Balanced Budget Refinement Act of 1999." Provisions in this legislation will delay implementation of the Medicare managed care competitive bidding demonstration until at least January 1, 2002.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the CBO baseline					
Budget authority	0	600	900	1,000	1,200
Outlays	0	600	900	1,000	1,200

Source: Congressional Budget Office.

Related GAO Products

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

Appendix III
Options for Increased Savings and Revenue
Gains

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

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

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

Medicare HMOs: HCFA Can Promptly Eliminate Hundreds of Millions in Excess Payments (GAO/HEHS-97-16, Apr. 25, 1997).

GAO Contact

William J. Scanlon, (202) 512-7114

Reassess Medicare Incentive Payments in Health Care Shortage Areas

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

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

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

- The need for this program may have changed; since 1987 the Congress generally increased reimbursement rates for primary care services and reduced the geographic variation in physician reimbursement rates. In addition, recent surveys of Medicare beneficiaries who have access problems, including those who may live in underserved areas, generally cite reasons other than the unavailability of a physician—such as the cost of services not paid by Medicare—for their access problems.
- The relatively small bonus payments most physicians receive—a median payment of \$341 for the year in 1996—are unlikely to have a significant impact on physician recruitment and retention.
- Specialists receive most of the program dollars, even though primary care physicians have been identified as being in short supply, while shortages of specialists, if any, have not been determined.

**Appendix III
Options for Increased Savings and Revenue
Gains**

- The program provides no incentives or assurances that physicians receiving bonuses will actually treat people who have problems obtaining health care.
- Health Care Financing Administration oversight of the program also has limitations that allow physicians and other providers to receive and retain bonus payments claimed in error.

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

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

The savings estimate that follows assumes that the Congress eliminates the additional 10 percent payment for services delivered in urban and rural HPSAs beginning in fiscal year 2000.

Five-Year Savings					
Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Savings from the CBO baseline					
Budget authority	85	100	110	115	125
Outlays	85	100	110	115	125

Note: Estimates include HMO interaction and are net of Part B premium effects.

Source: Congressional Budget Office.

Appendix III
Options for Increased Savings and Revenue
Gains

Related GAO Product

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

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

GAO Contact

William J. Scanlon, (202) 512-7114

600 Income Security

Simplify SSI Recipient Living Arrangements
Improve Social Security Benefit Payment Controls
Implement a Service Fee for Successful Non-Temporary Assistance for
Needy Families (TANF) Child Support Enforcement Collections
Develop Comprehensive Return-To-Work Strategies for People With
Disabilities
Improve Reporting of DOD Reserve Payroll Data to State Unemployment
Insurance Programs
Reduce Federal Funding Participation Rate for Automated Child Support
Enforcement Systems
Share the Savings From Bond Refundings
Revise Benefit Payments Under the Federal Employees' Compensation Act

Simplify Supplemental Security Income Recipient Living Arrangements

Authorizing committees	Finance (Senate) Ways and Means (House)
Appropriations subcommittees	Labor, HHS, Education and Related Agencies (Senate) Labor, Health and Human Services, and Education (House)
Primary agency	Social Security Administration
Accounts	Supplemental Security Income Program (28-0406)
Spending type	Direct/Discretionary
Budget subfunction	609/Other income security
Framework theme	Improve efficiency

Social Security Administration (SSA) administers the Supplemental Security Income (SSI) program, which is the nation's largest cash assistance program for the poor. Since its inception, the SSI program has been difficult to administer because, similar to other means tested programs, it relies on complicated criteria and policies to determine initial and continuing eligibility and benefit levels. One of the factors considered is the living arrangements of the beneficiary. When determining SSI eligibility and benefit amounts, SSA staff apply a complex set of policies to document an individual's living arrangements and any additional support they may be receiving from others. This process depends heavily on self-reporting by recipients of whether they live alone or with others; the relationships involved; the extent to which rents, food, utilities, and other household expenditures are shared; and exactly what portion of those expenses the individual pays. These numerous rules and policies have made living arrangement determinations one of the most complex and error prone aspects of the SSI program, and a major source of overpayments.

GAO recently reported that SSA has not addressed longstanding SSI living arrangement verification problems, despite numerous internal and external studies and many years of quality reviews denoting this as an area prone to error and abuse. Some of the studies GAO reviewed recommended ways to simplify the process by eliminating many complex calculations and thereby making it less susceptible to manipulation by recipients. Other studies GAO reviewed suggested ways to make this aspect of the program less costly to

taxpayers. For example, in 1989, SSA's Office of Inspector General reported that a more simplified process that applied a shared expenditures rationale to all SSI recipients living with another person would result in fewer errors and reduce annual overpayments by almost \$80 million. Such a change would require legislative action by the Congress. In light of the potential cost savings associated with addressing this issue, GAO recommended in September 1998 that SSA develop and advance legislative options for simplifying SSI living arrangement policies and ultimately reduce program overpayments. SSA told us that it is continuing to study SSI living arrangement policies and may ultimately consider proposing legislative options for change.

Although CBO agrees that some changes that would simplify living arrangement policies have the potential to create savings, it cannot develop a savings estimate until a specific legislative proposal is identified.

Related GAO Product

Supplemental Security Income: Action Needed on Long-Standing Problems Affecting Program Integrity (GAO/HEHS-98-158, Sept. 14, 1998).

GAO Contact

Cynthia M. Fagnoni, (202) 512-7215

Improve Social Security Benefit Payment Controls

Authorizing committees	Finance (Senate) Ways and Means (House)
Appropriations subcommittees	Labor, HHS, Education and Related Agencies (Senate) Labor, Health and Human Services, and Education (House)
Primary agency	Social Security Administration
Accounts	Federal Old Age and Survivor's Insurance Trust Fund (20-8006)
Spending type	Direct
Budget subfunction	651/Social security
Framework theme	Improve efficiency

Social Security Administration (SSA) is required by law to reduce social security benefits to persons who also receive a pension from noncovered employment (typically persons who work for the federal government or state and local governmental agencies). The Government Pension Offset provision requires SSA to reduce benefits to persons whose social security entitlement is based on another person's social security coverage (usually their spouse's). The Windfall Elimination Provision requires SSA to use a modified formula to calculate a person's earned social security benefit whenever a person also earned a pension through a substantial career in noncovered employment. The modified formula reduces the social security benefit significantly.

GAO found that SSA payment controls for these offsets were incomplete. For state and local retirees, SSA had no third party pension data to verify whether persons were receiving a noncovered pension. An analysis of available data indicated that this lapse in payment controls for state and local government retirees cost the trust funds between \$129 million to \$323 million from 1978 to about 1995.

GAO has recommended that SSA work with the Internal Revenue Service (IRS) to revise the reporting of pension income on IRS tax form 1099R. IRS has advised SSA that it needs a technical amendment to the Tax Code to obtain the information SSA needs. GAO believes that millions of dollars in reduced overpayments could be achieved each year with better payment controls. However, it should be noted that these savings would be offset

**Appendix III
Options for Increased Savings and Revenue
Gains**

somewhat by administrative costs associated with conducting additional computer matching at SSA. CBO estimates that improved payment controls could result in the savings shown in the table below.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the CBO baseline					
Budget authority	0	10	45	55	55
Outlays	0	10	45	55	55

Source: Congressional Budget Office.

Related GAO Product

Social Security: Better Payment Controls for Benefit Reduction Provisions Could Save Millions (GAO/HEHS-98-76, Apr. 30, 1998).

GAO Contact

Cynthia M. Fagnoni, (202) 512-7215

Implement a Service Fee for Successful Non-Temporary Assistance for Needy Families (TANF) Child Support Enforcement Collections

Authorizing committees	Finance (Senate) Ways and Means (House)
Appropriations subcommittees	Labor, HHS, Education and Related Agencies (Senate) Labor, Health and Human Services, and Education (House)
Primary agency	Department of Health and Human Services
Account	Family Support Payments to States (75-1501)
Spending type	Direct
Budget subfunction	609/Other income security
Framework theme	Redefine beneficiaries

The purpose of the Child Support Enforcement Program is to strengthen state and local efforts to obtain child support for both families eligible for Temporary Assistance for Needy Families (TANF) and non-TANF families. The services provided to clients include locating noncustodial parents, establishing paternity, and collecting ongoing and delinquent child support payments. From fiscal year 1984 through 1998, non-TANF caseloads and costs rose about 500 percent and 1200 percent, respectively. While states have the authority to fully recover the costs of their services, states have exercised their discretion and charged only minimal application and service fees. Thus, they are doing little to recover the federal government's 66 percent share of program costs. In fiscal year 1998, for example, state fee practices returned about \$49 million of the estimated \$2.1 billion spent to provide non-TANF services.

Since 1992, GAO has reported on opportunities to defray some of the costs of child support programs. Based on this work, GAO believes that mandatory application fees should be dropped and that states should be mandated to charge a minimum percentage service fee on successful collections for non-TANF families. Congressional action is necessary to put such a requirement in place. Application fees are administratively burdensome, and a service fee would ensure that families are charged only when the service has been successfully performed. The costs recovered from such a service fee would be determined by the percentage rate set by the Congress. For example, CBO estimates that if the Congress set the service fee at 5 percent for each successful non-TANF child support

**Appendix III
Options for Increased Savings and Revenue
Gains**

collection, the federal government could recover \$2 billion in 5 years. The following savings assume states would be able to implement this option beginning October 1, 2000.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the CBO baseline					
Budget authority	360	390	420	460	490
Outlays	360	390	420	460	490

Note: Estimate assumes that all fees collected are split between the federal and state government at the administrative cost match rate: 66 percent federal and 34 percent state.

Source: Congressional Budget Office.

Related GAO Products

Child Support Enforcement: Effects of Declining Welfare Caseloads Are Beginning to Emerge (GAO/HEHS-99-105, June 30, 1999).

Welfare Reform: Child Support an Uncertain Income Supplement for Families Leaving Welfare (GAO/HEHS-98-168, Aug. 3, 1998).

Child Support Enforcement: Early Results on Comparability of Privatized and Public Offices (GAO/HEHS-97-4, Dec. 16, 1996).

Child Support Enforcement: Reorienting Management Toward Achieving Better Program Results (GAO/HEHS/GGD-97-14, Oct. 25, 1996).

Child Support Enforcement: States' Experience with Private Agencies' Collection of Support Payments (GAO/HEHS-97-11, Oct. 23, 1996).

Child Support Enforcement: States and Localities Move to Privatized Services (GAO/HEHS-96-43FS, Nov. 20, 1995).

Child Support Enforcement: Opportunity to Reduce Federal and State Costs (GAO/T-HEHS-95-181, June 13, 1995).

GAO Contact

Cynthia M. Fagnoni, (202) 512-7215

**Develop
Comprehensive
Return-To-Work
Strategies for People
With Disabilities**

Authorizing committees	Finance (Senate) Ways and Means (House)
Appropriations subcommittees	Labor, HHS, Education and Related Agencies (Senate) Labor, Health and Human Services, and Education (House)
Primary agency	Social Security Administration
Account	Federal Disability Insurance Trust Fund (20-8007) Supplemental Security Income Program (20-0406)
Spending type	Direct
Budget subfunction	Multiple
Framework theme	Reassess objectives

The Social Security Administration (SSA) operates the Disability Insurance (DI) and Supplemental Security Income (SSI) programs—the nation’s two largest federal programs providing cash benefits to people with disabilities. For fiscal year 2000, DI outlays are estimated as over \$54 billion and SSI outlays as about \$32 billion dollars. SSA data show that between 1988 and 1998, the size of the working-age beneficiary population increased 73 percent, from about 4.4 million to 7.6 million. Such growth has raised concerns that are compounded by the fact that less than 1 percent of DI beneficiaries ever leave the disability rolls by returning to work.

GAO found that return-to-work strategies and practices may hold potential for improving federal disability programs by helping people with disabilities return to productive activity in the workplace and, at the same time, reducing benefit payments. GAO’s analysis of practices advocated and implemented by the private sector in the United States and by social insurance programs in Germany and Sweden revealed three common strategies in the design of their return-to-work programs: intervene as soon as possible after an actual or potentially disabling event to promote and facilitate return-to-work, identify and provide necessary return-to-work assistance and manage cases to achieve return-to-work goals, and structure cash and medical benefits to encourage people with disabilities to return to work.

In line with placing greater emphasis on return-to-work, GAO recommended that the Commissioner of SSA develop a comprehensive return-to-work strategy that integrates, as appropriate, earlier intervention, supports and services needed for work, and cash and medical benefits that make work more financially advantageous. SSA has recently taken steps to improve work outcomes, including increasing access to private vocational rehabilitation providers and awarding cooperative agreements to 12 states to develop integrated services to assist beneficiaries return-to-work. Moreover, the Congress recently passed The Ticket to Work and Work Incentives Improvement Act of 1999, which contains provisions, among others, to safeguard medical coverage for workers with disabilities, enhance VR services for beneficiaries, and demonstrate the effectiveness of allowing working beneficiaries to keep more of their earnings. GAO acknowledges the importance of the new legislation and of SSA's initiatives to improve work opportunities. However, these efforts would have greater impact if benefits were structured to give beneficiaries greater impetus to use VR services and attempt work, and if return-to-work assistance were provided earlier in the decision-making process. GAO believes that substantial savings could be achieved if SSA were to develop such a program. However, such savings would be offset by program costs and any net savings would depend on the program's participation rate.

Related GAO Products

Social Security Disability: Multiple Factors Affect Return to Work (GAO/T-HEHS-99-82, Mar. 11, 1999).

Social Security Disability Insurance: Multiple Factors Affect Beneficiaries' Ability to Return to Work (GAO/HEHS-98-39, Jan. 12, 1998).

Social Security: Disability Programs Lag in Promoting Return to Work (GAO/HEHS-97-46, Mar. 17, 1997).

People With Disabilities: Federal Programs Could Work Together More Efficiently to Promote Employment (GAO/HEHS-96-126, Sept. 3, 1996).

SSA Disability: Return-to-Work Strategies From Other Systems May Improve Federal Programs (GAO/HEHS-96-133, July 11, 1996).

SSA Disability: Program Redesign Necessary to Encourage Return to Work (GAO/HEHS-96-62, Apr. 24, 1996).

**Appendix III
Options for Increased Savings and Revenue
Gains**

GAO Contact

Cynthia M. Fagnoni, (202) 512-7215

Improve Reporting of
DOD Reserve
Employee Payroll Data
to State
Unemployment
Insurance Programs

Authorizing committees	Finance (Senate) Ways and Means (House)
Appropriations subcommittees	Defense (Senate and House) Labor, HHS, Education and Related Agencies (Senate) Labor, Health and Human Services, and Education (House)
Primary agency	Department of Labor
Account	Unemployment Trust Fund 20-8042
Spending type	Direct
Framework theme	Redefine beneficiaries

The Congress established the national unemployment insurance (UI) system in the 1930s to provide partial income assistance to many temporarily unemployed workers with substantial work histories. Today, UI is the major federal program providing assistance to the unemployed. Many workers covered by the UI system are also among the 1.1 million personnel participating in the National Reserve forces (Army National Guard, Army Reserve, Naval Reserve, Marine Corps Reserve, Air National Guard, Air Force Reserve, and the Coast Guard Reserve).

Most UI claimants are required to report the income they receive while in the Reserves so that state UI programs can reduce their benefits accordingly. GAO's analysis of benefit and Reserve data from seven states shows that some Reserve personnel are receiving improper benefit payments from state UI programs. In the seven states in GAO's analysis, GAO estimates that UI claimants who were active participants in the Reserve failed to report over \$7 million in Reserve income in fiscal year 1994. This led to UI benefit overpayments of approximately \$3.6 million, of which federal trust fund losses were about \$1.2 million. GAO expects that the federal and state trust fund losses from all UI programs are much greater because the seven states GAO reviewed account for only 27 percent of all reservists.

State officials cited various reasons why claimants may not be reporting their Reserve income while receiving UI benefits. According to state officials, the claimants may not understand their reporting responsibilities, are often not specifically informed of these responsibilities, and may have

incentives not to report all Reserve income—incentives that are amplified by the states' limited ability to detect nonreporting.

The Defense Department and the Department of Transportation's Coast Guard have recently acted to ensure that reservists are reminded of their responsibility to report income from reserve activity to state UI agencies. All reservists now receive an annual notice with their leave and earnings statements reminding them of their duty to disclose their affiliation and any Reserve related earnings when filing an UI claim. In addition, the Labor Department has issued a directive to all state employment security agencies to ensure that they inform prospective and continuing UI benefit claimants of their responsibility to report Reserve related income.

These actions should improve general reservist compliance with state UI program income reporting requirements. However, to detect unreported Reserve income, the most frequently suggested alternative by federal and state officials would be to require the Department of Defense (DOD) to report Reserve payroll and personnel data to states on a quarterly basis, as private-sector employers are required to do, to permit verification of claimant income on a regular basis. DOD has stated that it will develop an action plan to provide such data to the state UI programs. However, completion of this plan has been delayed because of other competing agency priorities and a recognition that the task was more complex than originally envisioned.

It is important to note that the nonreporting of claimant income appears to be a broader problem involving all UI claimants who were former federal civilian and military employees, rather than just those participating in the Reserves. Officials from many of the state programs GAO analyzed reported general difficulties in monitoring reported income from claimants who were former federal employees.

If DOD was required to report Reserve payroll and personnel data to states on a quarterly basis, CBO estimates that the following savings would result from the reduction in overpayments.

DOD originally agreed with this recommendation and made initial efforts to develop an action plan to implement it. However, it now reports that, given its effort to ensure any action taken be cost-effective and commensurate with potential savings, it does not intend to take further action to respond to this recommendation. According to DOD, 13 states effectively exempt reserve wages from any unemployment insurance payment offset, and

**Appendix III
Options for Increased Savings and Revenue
Gains**

there could be significant costs associated with providing automated data on the earnings of part-time reservists. GAO does not agree that implementation costs would necessarily outweigh savings. GAO found millions of dollars in unemployment insurance overpayments for just 7 states and 27 percent of the reservists, which would likely lead to even greater levels of overpayments for the remaining states that offset reservist wages.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the CBO baseline					
Budget authority	13	14	14	14	15
Outlays	13	14	14	14	15
Reduction in receipts	0	-1	-3	-6	-8
Net effect on deficit	13	13	11	9	7

Note: Unemployment Insurance trust fund receipts are dependent on prior year benefit outlays. CBO estimates that, in addition to savings, this option would have the effect of reducing trust fund receipts in the out years.

Source: Congressional Budget Office.

Related GAO Product

Unemployment Insurance: Millions in Benefits Overpaid to Military Reservists (GAO/HEHS-96-101, Aug. 5, 1996).

GAO Contact

Cynthia M. Fagnoni, (202) 512-7215

Reduce Federal Funding Participation Rate for Automated Child Support Enforcement Systems

Authorizing committees	Finance (Senate) Ways and Means (House)
Appropriations subcommittees	Labor, HHS, Education and Related Agencies (Senate) Labor, Health and Human Services, and Education (House)
Primary agency	Department of Health and Human Services
Account	Family Support Payments to States (75- 1501)
Spending type	Direct
Budget subfunction	609/Other income security
Framework theme	Improve efficiency

The Department of Health and Human Services' (HHS) Office of Child Support Enforcement (OCSE) oversees states' efforts to develop automated systems for the Child Support Enforcement Program. Established for both welfare and nonwelfare clients with children, this program is directed at locating parents not supporting their children, establishing paternity, obtaining court orders for the amounts of money to be provided, and collecting these amounts from noncustodial parents. Achievement of Child Support Enforcement Program goals depends in part on the effective planning, design, and operation of automated systems. The federal government is providing enhanced funding to develop these automated child support enforcement systems by paying up to 90 percent of states' development costs. From fiscal year 1981 through fiscal year 1998, the states have spent about \$3.8 billion to develop these systems, including over \$2.8 billion from the federal government.

The 90 percent funding participation rate was initially discontinued at the end of fiscal year 1995, the congressionally mandated date for the systems to be certified and operational. However, the Congress subsequently extended the deadline for these systems to the end of fiscal year 1997. The federal government will continue to reimburse states' costs to operate these systems at the 66 percent rate established for administrative expenses. Finally, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (P.L. 104-193) provided additional funding for the states to meet new systems requirements under this law. An 80 percent federal funding participation rate, with a total national funding cap of

**Appendix III
Options for Increased Savings and Revenue
Gains**

\$400 million was authorized. The 66 percent federal funding participation rate was continued for systems operation and administrative expenses.

The Congress could choose to reduce the federal funding participation rate for modification and operation of these systems from 66 percent to the 50 percent rate now common for such costs in other programs, such as Food Stamps and other welfare programs. CBO estimates that a reduced participation rate would produce the following savings.

Five-Year Savings					
Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Savings from the CBO baseline					
Budget authority	160	175	195	220	220
Outlays	160	175	195	220	220

Source: Congressional Budget Office.

Related GAO Products

Child Support Enforcement: Leadership Essential to Implementing Effective Automated Systems (GAO/T-AIMD-97-162, Sept. 10, 1997).

Child Support Enforcement: Strong Leadership Required to Maximize Benefits of Automated Systems (GAO/AIMD-97-72, June 30, 1997).

Child Support Enforcement: Timely Action Needed to Correct System Development Problems (GAO/IMTEC-92-46, Aug. 13, 1992).

Child Support Enforcement: Opportunity to Defray Burgeoning Federal and State Non-AFDC Costs (GAO/HRD-92-91, June 5, 1992).

GAO Contact

Joel C. Willemsen, (202) 512-6408

Share the Savings From Bond Refundings

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Banking and Financial Services (House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Housing and Urban Development
Account	Housing Certificate Fund (86-0319)
Spending type	Discretionary/Direct
Budget subfunction	604/Housing assistance
Framework theme	Redefine beneficiaries

During the 1970s and early 1980s, Department of Housing and Urban Development (HUD) administered programs to develop housing for low-income households using various types of financing arrangements and long-term Section 8 rental housing assistance contracts. While some properties were financed by loans and grants from HUD, others were financed by bonds issued by state and local housing finance agencies. During the late 1970s and early 1980s, the cost to finance housing development rose to unprecedented levels. In response, HUD authorized higher Section 8 rental assistance payments to cover the higher bond financing costs, first in 1980 and then in 1981. Since then, as interest rates declined, many state and local housing finance agencies have refunded the bonds they issued and issued new bonds at lower interest rates. This action has generated substantial savings for the state agencies. These savings represent the difference between the amounts needed to repay the original bonds and the lower amounts needed to repay the new bonds. Agencies typically use these savings to provide affordable housing in their states.

In 1999, GAO reported that HUD had not issued clear guidance on when state agencies are required to share the savings associated with bond refundings with the federal government. The need for clearer guidance specifically relates to state agency compliance with the bond refunding provisions in an October 1992 amendment to Section 1012 of the McKinney Act. The amendment was unclear as to whether the states were required to share the savings from bond refundings with the federal government for all properties covered by Section 8 rental assistance contracts that were entered into from 1979 through 1984. In the absence of clear guidance from

Appendix III
Options for Increased Savings and Revenue
Gains

HUD, GAO found that some state agencies have shared the savings from bond refunding for such properties with the federal government while other agencies have retained the savings.

If legislative changes are made to clarify the Congress' intent that state agencies should be required to share bond refunding savings with the federal government for all properties covered by Section 8 rental assistance contracts entered into from 1979 through 1984, CBO agrees that there could be savings but does not have nationwide data to quantify the savings amount.

Related GAO Product

Multifamily Housing: HUD Missed Opportunities to Reduce Costs on Its Uninsured Section 8 Portfolio (GAO/RCED-99-217, July 30, 1999).

GAO Contact

Stanley J. Czerwinski, (202) 512-7631

Revise Benefit Payments Under the Federal Employees' Compensation Act

Authorizing committees	Health, Education, Labor and Pensions (Senate) Education and the Workforce (House)
Appropriations subcommittees	Labor, HHS, Education and Related Agencies (Senate) Labor, Health and Human Services, and Education (House)
Primary agency	Department of Labor
Account	Multiple
Spending type	Direct/Discretionary
Budget subfunction	609/Other income security
Framework theme	Reassess objectives

Federal workers who are disabled as a result of a work-related injury are entitled to tax-free workers' compensation benefits under the Federal Employees' Compensation Act (FECA). Several GAO reviews have identified ways in which benefit payment policies can be revised to better address eligibility and/or need or to bring FECA benefits more in line with other federal and state workers' compensation laws.

Basing FECA Compensation on Spendable Earnings

For almost all totally disabled individuals, FECA benefits are 66-2/3 percent of gross pay for beneficiaries without dependents and 75 percent of gross pay for beneficiaries with at least one dependent. GAO reported that nearly 30 percent of the more than 23,000 beneficiaries included in GAO's analyses received FECA compensation benefits that replaced more than 100 percent of their estimated take-home pay. Another 40 percent of these beneficiaries received FECA benefits that were between 90 and 99 percent of their take-home pay. Benefit replacement rates tended to be higher for beneficiaries who (1) received higher amounts of pay before they were injured, (2) were injured before 1980, (3) received the FECA dependent benefit, and (4) lived in states that had an income tax.

Workers' compensation program analysts are reluctant to take a position on what the "correct" level of workers' compensation benefits should be, leaving that matter to the judgment of legislators. According to a 1985 Workers Compensation Research Institute report, legislators in many states must walk a fine line between benefits that are high enough to provide

**Appendix III
Options for Increased Savings and Revenue
Gains**

adequate income, but not so high as to discourage an employee's return to work when he or she is no longer disabled. The 1972 Report of the National Commission on State Workmen's Compensation Laws recommended that workers' weekly benefits should replace at least 80 percent of their spendable weekly earnings, subject to a state's maximum weekly benefit. Six states use a percentage of spendable weekly earnings (ranging from 75 to 80 percent) rather than a percentage of gross wages as the basis for computing compensation benefits. Spendable earnings (take-home pay) are computed by taking an employee's gross pay at the time of injury and subtracting Social Security taxes and federal and state income taxes. Taxes are based on published tax withholding tables, given an employee's actual exemptions and a standard deduction.

If the Congress judges that current FECA benefits are so high as to discourage employee's return to work, it could consider changing the current FECA benefit structure from one that bases compensation on gross pay to one that bases compensation on spendable earnings. The following savings estimates assume that the new FECA benefit formula would equal 80 percent of spendable earnings. The CBO estimates below assume that changes in benefits would be made prospectively. Additional savings could be achieved if changes were made to affect individuals who were already receiving FECA benefits. Fewer savings would be achieved if a higher percentage of spendable earnings were used as the basis for computing FECA benefits.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Discretionary spending					
Budget authority	5	10	20	35	50
Outlays	5	10	20	35	50

Source: Congressional Budget Office.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Direct spending					
Savings from the CBO baseline					
Budget authority	10	20	20	20	20
Outlays	10	20	20	20	20

Source: Congressional Budget Office.

**Revising Benefits for
Retirement Eligible
Beneficiaries**

Retirement eligible federal workers who continue to be disabled as a result of a work-related injury could receive tax-free workers' compensation benefits under FECA for the remainder of their lives that would generally be greater than amounts these workers would receive as retirement benefits. FECA benefits are 75 percent of salary for a disabled employee with a dependent; Civil Service Retirement System benefits for a 55-year old employee with 30 years of service are 56 percent of salary. GAO reported that 60 percent of the approximately 44,000 long-term FECA beneficiaries were at least age 55, the age at which some federal employees are eligible for optional retirement with unreduced retirement benefits. Proponents for changing FECA benefits for older beneficiaries argue that an inequity is created between federal workers who retire normally and those who, in effect, "retire" on FECA benefits. Opponents of such a change argue that reducing benefits would break the implicit promise that injured workers have exchanged their right to tort claims for a given level of future benefits.

GAO identified two prior proposals for reducing FECA benefits to those who become eligible for retirement. One would convert compensation benefits received by retirement-eligible disabled workers to retirement benefits. However, this approach raises complex issues related to the tax-free nature of workers' compensation benefits and to the individual's entitlement to retirement benefits. The second proposal would convert FECA benefits to a newly established FECA annuity, thus avoiding the complexity of shifting from one benefit program to another.

To reduce benefits for retirement-eligible FECA beneficiaries, the Congress could consider converting from the current FECA benefit structure to a

**Appendix III
Options for Increased Savings and Revenue
Gains**

FECA annuity. The following savings estimate assumes that such an annuity would equal two-thirds of the previously provided FECA compensation benefit, and that the annuity would begin following the disabled individual's eligibility for retirement benefits. The CBO estimate assumes that changes in benefits would be made prospectively. Additional savings could be achieved if changes were made to affect individuals who were already receiving FECA benefits.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Discretionary spending					
Budget authority	2	5	10	20	25
Outlays	2	5	10	20	25

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Direct spending					
Savings from the CBO baseline					
Budget authority	5	10	10	10	10
Outlays	5	10	10	10	10

Source: Congressional Budget Office.

FECA Cases Involving Third Parties

FECA authorizes federal agencies to continue paying employees their regular salaries for up to 45 days when they are absent from work due to work-related traumatic injuries. In cases in which third parties are responsible for employees' on-the-job injuries (e.g., dog bites or automobile-related injuries), the Department of Labor may require that employees pursue collection actions against these parties. However, based on current interpretations of FECA by the Employees' Compensation Appeals Board and a federal appeals court, the federal government has no

**Appendix III
Options for Increased Savings and Revenue
Gains**

legal basis to obtain refunds from third parties for the first 45 days of absence from work (called the continuation-of-pay (COP) period). Recoveries from third parties continue to be allowed for payments of compensation benefits following the COP period and for medical benefits.

Based on the current interpretation of FECA, employees can receive regular salary payments from their employing agencies and reimbursements from third parties—in effect, a double recovery of income for their first 45 days of absence from work due to an injury for which a third party was responsible. GAO recommended that the Congress amend FECA to expressly provide for refunds of amounts paid as COP when employees receive third party recoveries. CBO estimates that the following savings could be achieved if the Congress redefined COP so that it could be included in amounts employees are required to reimburse the government when they recover damages from third parties.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Discretionary spending					
Budget authority	*	*	1	2	2
Outlays	*	*	1	2	2

Source: Congressional Budget Office.

*Savings of less than \$500,000

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Direct spending					
Savings from the CBO baseline					
Budget authority	0	0	0	0	0
Outlays	1	1	*	*	*

Source: Congressional Budget Office.

* Savings of less than \$500,000

**Comparability of FECA and
Other Compensation Laws**

GAO identified three major ways in which FECA differs from other federal and state workers' compensation laws, each of which results in relatively greater benefits under FECA. First, FECA authorizes maximum weekly benefit amounts that are greater than those authorized by other federal and state workers' compensation laws. As of January 1, 1995, maximum authorized weekly FECA benefits were equal to \$1,274: 75 percent of the base salary of a GS-15, step 10. The maximum weekly benefit authorized under the other workers' compensation laws was \$817 in Iowa. FECA also authorizes additional benefits for one or more dependents equal to 8.33 percent of salary. Only seven states authorize additional benefits for dependents, ranging from \$5 to \$10 per week per dependent, with total benefits not exceeding maximum authorized benefit amounts. Finally, FECA provides eligible workers who suffer traumatic injuries with their regular salary for a period not to exceed 45 days. Compensation benefits for wage loss begin on the 48th day, after a 3-day waiting period. All other federal and state workers' compensation laws provide for a 3- to 7-day waiting period following the injury before paying compensation benefits. In either case, if employees continue to be out of work for extended periods of time ranging from 5 to 42 days, depending on the jurisdiction, retroactive benefits to cover the waiting period would be paid.

Reducing FECA's authorized maximum weekly benefit to make it comparable to other compensation laws would have little effect on compensation costs because very few federal workers receive maximum benefits. However, eliminating augmented compensation benefits for dependents and placing a 5-day waiting period immediately following the injury, and before the continuation of pay period, would produce the following savings, as estimated by CBO.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Budget authority	7	7	7	7	7
Outlays	7	7	7	7	7

Source: Congressional Budget Office.

Related GAO Products

Federal Employees' Compensation Act: Percentages of Take-Home Pay Replaced by Compensation Benefits (GAO/GGD-98-174, Aug. 17, 1998).

Federal Employees' Compensation Act: Issues Associated with Changing Benefits for Older Beneficiaries (GAO/GGD-96-138BR, Aug. 14, 1996).

Workers' Compensation: Selected Comparisons of Federal and State Laws (GAO/GGD-96-76, Apr. 3, 1996).

Federal Employees' Compensation Act: Redefining Continuation of Pay Could Result in Additional Refunds to the Government (GAO/GGD-95-135, June 8, 1995).

GAO Contact

Michael Brostek, (202) 512-3909

**700 Veterans Benefits
and Services**

- Revise VA's Disability Ratings Schedule to Better Reflect Veterans' Economic Losses
- Discontinue Veterans' Disability Compensation for Non-Service Connected Diseases
- Increase Cost Sharing for Veterans' Long-Term Care
- Reassess Unneeded Health Care Assets Within the Department of Veterans Affairs
- Limit Enrollment in Veterans Affairs Health Care System
- Reduce Department of Veterans Affairs Outpatient Pharmacy Costs

Revise VA's Disability Ratings Schedule to Better Reflect Veterans' Economic Losses

Authorizing committees	Veterans' Affairs (Senate and House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Veterans Affairs
Account	Compensation and Pensions (36-0153)
Spending type	Direct
Budget subfunction	701/Income security for veterans
Framework theme	Reassess objectives

The Department of Veterans Affairs' (VA) disability program is required by law to compensate veterans for the average loss in earning capacity in civilian occupations that results from injuries or conditions incurred or aggravated during military service. Veterans with such service-connected disabilities are entitled to monthly cash benefits under this program even if they are working and regardless of the amount they earn. The amount of compensation received is based on disability ratings that VA assigns to the service-connected conditions. In fiscal year 1998, VA paid about \$17 billion in compensation to about 2.2 million veterans for these service-connected disabilities.

The disability ratings schedule that VA currently uses is still primarily based on physicians' and lawyers' judgments made in 1945 about the effect service-connected conditions had on the average individual's ability to perform jobs requiring manual or physical labor. Although the ratings in the schedule have not changed substantially since 1945, dramatic changes have occurred in the labor market and in society. The results of an economic validation of the schedule conducted in the late 1960s indicated that ratings for many conditions did not reflect the actual average loss in earnings associated with them. Therefore, it is likely that some of the ratings in the schedule do not reflect the economic loss experienced by veterans today. Hence, the schedule may not equitably distribute compensation funds among disabled veterans.

The Congress may wish to consider directing VA to determine whether the ratings for conditions in the schedule correspond to veterans' average loss in earnings due to these conditions and adjust disability ratings accordingly. Generally accepted and widely used approaches exist to

**Appendix III
Options for Increased Savings and Revenue
Gains**

statistically estimate the effect of specific service-connected conditions on veterans' average earnings. These estimates could be used to set disability ratings in the schedule that are appropriate in today's socioeconomic environment. The cost to collect the data to produce these estimates was projected to be between \$5 million and \$10 million, which would be a small fraction of the over \$17 billion VA pays in disability compensation to veterans annually. CBO cannot develop a savings estimate until specific proposals are identified.

Related GAO Product

VA Disability Compensation: Disability Ratings May Not Reflect Veterans' Economic Losses (GAO/HEHS-97-9, Jan. 7, 1997).

GAO Contact

Stephen P. Backhus, (202) 512-7101

Discontinue Veterans' Disability Compensation for Nonservice Connected Diseases

Authorizing committees	Veterans Affairs (Senate and House)
Appropriations subcommittee	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Veterans Affairs
Account	Compensation and Pensions (36-0153)
Spending type	Direct
Budget subfunction	701/Income security for veterans
Framework theme	Redefine beneficiaries

In fiscal year 1999, the Department of Veterans Affairs (VA) paid about \$18 billion in compensation to about 2.3 million veterans for service-connected disabilities. A disease or injury resulting in disability is considered service-connected if it was incurred or aggravated during military service. No causal connection is required. In 1989, GAO reported on the U.S. practice of compensating veterans for conditions that were probably neither caused nor aggravated by military service. These conditions included diabetes, chronic obstructive pulmonary disease, arteriosclerotic heart disease, and multiple sclerosis. In 1993, GAO reported that other countries were less likely to compensate veterans when diseases are unrelated to military service, when the relationship of the disease to military service could not be established, or for off-duty injuries such as those that happen while on vacation.

The Congress may wish to reconsider whether diseases neither caused nor aggravated by military service should be compensated as service-connected disabilities. In 1996, the Congressional Budget Office (CBO) reported that about 230,000 veterans were receiving about \$1.1 billion in disability compensation payments annually for diseases neither caused nor aggravated by military service. If disability compensation payments to veterans with nonservice connected, disease-related disabilities were eliminated in future cases, CBO estimates that the following savings would apply.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the CBO baseline					
Budget authority	75	230	393	566	830
Outlays	69	217	379	552	827

Note: These estimates take into account an increase in DOD retirement pay.

Source: Congressional Budget Office.

Related GAO Products

VA Disability Compensation: Disability Ratings May Not Reflect Veterans' Economic Losses (GAO/HEHS-97-9, Jan. 7, 1997).

Disabled Veterans Programs: U.S. Eligibility and Benefit Types Compared With Five Other Countries (GAO/HRD-94-6, Nov. 24, 1993).

VA Benefits: Law Allows Compensation for Disabilities Unrelated to Military Service (GAO/HRD-89-60, July 31, 1989).

GAO Contact

Stephen P. Backhus, (202) 512-7101

Increase Cost Sharing for Veterans' Long-Term Care

Authorizing committees	Veterans Affairs (Senate and House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Veterans Affairs
Account	Medical Care (36-0160)
Spending type	Discretionary
Budget subfunction	703/Hospital and medical care for veterans
Framework theme	Redefine beneficiaries

State veterans' homes recover as much as 50 percent of the costs of operating their facilities through charges to veterans receiving services. Similarly, Oregon recovers about 14 percent of the costs of nursing home care provided under its Medicaid program through estate recoveries. Many other states also conduct estate recoveries. In contrast, in fiscal year 1998, the Department of Veterans Affairs (VA) offset less than one-tenth of 1 percent of its costs through beneficiary copayments.

Potential recoveries appear to be greater within the VA system than under Medicaid. Home ownership is significantly higher among VA hospital users than among Medicaid nursing home recipients, and veterans living in VA nursing homes generally contribute less toward the cost of their care than do Medicaid recipients, allowing veterans to build larger estates.

In the Veterans' Millenium Health Care and Benefits Act of November 30, 1999, Congress required VA to increase cost sharing for those veterans without service-connected disabilities who use nursing home care. To implement this requirement, VA may wish to establish cost sharing rules for such care by (1) adopting cost-sharing requirements similar to those imposed by most state veteran's homes and (2) implementing an estate recovery program similar to those operated by many states under their Medicaid programs. If VA recovered either 25 or 50 percent of its costs of providing nursing home and domiciliary care to veterans with non service connected disabilities through a combination of cost-sharing and estate recoveries, the savings shown in the following table would apply, as estimated by CBO.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Option: Recovery of 25 percent of costs					
Budget authority	550	570	590	610	630
Outlays	550	570	590	610	630

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Option: Recovery of 50 percent of costs					
Budget authority	1,100	1,140	1,180	1,220	1,260
Outlays	1,100	1,140	1,180	1,220	1,260

Source: Congressional Budget Office.

Related GAO Products

VA Aid and Attendance Benefits: Effects of Revised HCFA Policy on Veterans' Use of Benefits (GAO/HEHS-97-72R, Mar. 3, 1997).

VA Health Care: Better Data Needed to Effectively Use Limited Nursing Home Resources (GAO/HEHS-97-27, Dec. 20, 1996).

VA Health Care: Potential for Offsetting Long-Term Care Costs Through Estate Recovery (GAO/HRD-93-68, July 27, 1993).

VA Health Care: Offsetting Long-Term Care Cost By Adopting State Copayment Practices (GAO/HRD-92-96, Aug. 12, 1992).

GAO Contact

Stephen P. Backhus, (202) 512-7101

Reassess Unneeded Health Care Assets Within the Department of Veterans Affairs

Authorizing committees	Veterans Affairs (Senate and House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Veterans Affairs
Account	Medical Care (36-0160)
Spending type	Discretionary
Budget subfunction	703/Hospital and medical care for veterans
Framework theme	Improve efficiency

The Department of Veterans Affairs (VA) owns 4,700 buildings and 18,000 acres of land, which it uses to operate 181 major health care delivery locations. These locations operate in 106 health care markets nationwide. These include 40 markets where multiple VA facilities compete with each other to serve veterans (115 locations) and 66 markets served by a single VA delivery location. VA spends a major portion of its \$18.4 billion health care budget—about 1 out of every 4 dollars—to operate, maintain, and improve its delivery locations, generally referred to as the costs of asset ownership. All VA delivery locations project a declining veteran population base for their primary market areas, with two-thirds expecting declines greater than 33 percent over the next 20 years.

Without a major restructuring, billions of dollars will be used in the operation of hundreds of unneeded VA buildings over the next several years. For example, VA could realize efficiency savings totaling millions of dollars and provide the same or higher quality of care by consolidating medical and administrative services in fewer than its 4 major delivery locations in the Chicago area; over 120 buildings are currently operated and maintained at these locations. VA responded by studying and then identifying six restructuring options for the Chicago area, with projected annual savings ranging between \$132 million and \$189 million in fiscal year 2010 (VA believes that it will need 10 years to fully implement any restructuring option). In September 1999, VA announced its intent to implement the option that realizes the largest dollar savings, primarily because, according to VA, it maximizes the accessibility and quality of medical care for veterans. Many stakeholders, especially medical schools, have voiced objections to VA's restructuring plan.

VA needs to implement an asset realignment plan not only for the Chicago area; it also needs to develop and implement realignment plans for its other 105 markets. As part of this planning effort, VA should conduct rigorous market analyses, a tool that has produced positive results in the private sector. Such analyses include a determination of veterans' health care needs in a market, a comparison of life-cycle costs of asset ownership, and alternatives analyses to enable VA to evaluate options for meeting needs in the most cost-effective manner. No specific budget estimate can be developed until VA completes this reassessment.

Although CBO agrees that reducing unneeded health care assets at the VA has the potential to create savings, it cannot develop a savings estimate until a specific legislative proposal is identified.

Related GAO Products

VA Health Care: Improvements Needed in Capital Asset Planning and Budgeting (GAO/HEHS-99-145, Aug. 13, 1999).

VA Health Care: Challenges Facing VA in Developing an Asset Realignment Process (GAO/T-HEHS-99-173, July 22, 1999).

Veterans' Affairs: Progress and Challenges in Transforming Health Care (GAO/T-HEHS-99-109, Apr. 15, 1999).

VA Health Care: Capital Asset Planning and Budgeting Need Improvement (GAO/T-HEHS-99-83, Mar. 10, 1999).

VA Health Care: Closing a Chicago Hospital Would Save Millions and Enhance Access to Services (GAO/HEHS-98-64, Apr. 16, 1998).

VA Health Care: Opportunities to Enhance Montgomery and Tuskegee Service Integration (GAO/T-HEHS-97-191, July 28, 1997).

VA Health Care: Lessons Learned From Medical Facility Integrations (GAO/T-HEHS-97-184, July 24, 1997).

Department of Veterans Affairs: Programmatic and Management Challenges Facing the Department (GAO/T-HEHS-97-97, Mar. 18, 1997).

VA Health Care: Opportunities for Service Delivery Efficiencies Within Existing Resources (GAO/HEHS-96-121, July 25, 1996).

Appendix III
Options for Increased Savings and Revenue
Gains

VA Health Care: Opportunities to Increase Efficiency and Reduce Resource Needs (GAO/T-HEHS-96-99, Mar. 8, 1996).

VA Health Care: Challenges and Options for the Future (GAO/T-HEHS-95-147, May 9, 1995).

GAO Contact

Stephen P. Backhus, (202) 512-7101

Limit Enrollment in Veterans Affairs Health Care System

Authorizing committees	Veterans Affairs (Senate and House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Veterans Affairs
Account	Medical Care (36-0160)
Spending type	Discretionary
Budget subfunction	703/Hospital and medical care for veterans
Framework theme	Redefine beneficiaries

The Department of Veterans Affairs (VA) health care system was initially established to meet the special care needs of veterans injured during wartime and those wartime veterans permanently incapacitated and incapable of earning a living. Although all veterans were eligible for hospital care, most veterans were eligible for only limited outpatient services.

Recently enacted legislation expands eligibility for health benefits to make all veterans eligible for comprehensive inpatient and outpatient services, subject to the availability of resources. The legislation also requires VA to establish a system of enrollment for VA health care benefits and establishes enrollment priorities to be applied within appropriated resources. The lowest priority for enrollment are veterans with no service-connected disabilities and incomes that place them in the discretionary care category.

However, VA does not currently provide the Congress the type of information on VA's workload that would enable it to make informed judgments about which portion of VA's workload to fund. For example, it provides the Congress little data on the extent to which its resources are used to provide services to service-connected veterans, to veterans with low incomes, and to veterans with higher incomes. Without information on the extent to which VA resources are used to provide services to veterans in the priority categories established under the new law, the Congress lacks the basic information needed to guide decisions about what portion of VA's workload to fund.

GAO found that about 15 percent of veterans with no service-connected disabilities who use VA medical centers have sufficiently high incomes that

**Appendix III
Options for Increased Savings and Revenue
Gains**

would place them in the lowest priority category under the new patient enrollment system. The Congress could consider funding the VA health care system to cover only the expected enrollment of veterans in higher priority enrollment categories, such as veterans with service-connected disabilities and veterans without the means to obtain public or private insurance to meet their basic health care needs. CBO estimates that doing so would produce the savings shown in the following table.

Five-Year Savings					
Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	468	462	549	545	541
Outlays	461	460	547	542	537

Source: Congressional Budget Office.

Related GAO Products

VA Health Care: Issues Affecting Eligibility Reform Efforts (GAO/HEHS-96-160, Sept. 11, 1996).

VA Health Care: Opportunities for Service Delivery Efficiencies Within Existing Resources (GAO/HEHS-96-121, July 25, 1996).

VA Health Care: Approaches for Developing Budget-Neutral Eligibility Reform (GAO/T-HEHS-96-107, Mar. 20, 1996).

VA Health Care: Opportunities to Increase Efficiency and Reduce Resource Needs (GAO/T-HEHS-96-99, Mar. 8, 1996).

VA Health Care: Issues Affecting Eligibility Reform (GAO/T-HEHS-95-213, July 19, 1995).

GAO Contact

Stephen P. Backhus, (202) 512-7101

Reduce Department of Veterans Affairs Outpatient Pharmacy Costs

Authorizing committees	Veterans Affairs (Senate and House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Veterans Affairs
Account	Medical Care (36-0160)
Spending type	Discretionary
Budget subfunction	703/Hospital and medical care for veterans
Framework theme	Redefine beneficiaries

The Department of Veterans Affairs (VA) pharmacies dispense over 2,000 types of medications and medical supplies to veterans that are available over the counter (OTC) through local retail outlets. Such products were dispensed more than 15 million times in 1995 at an estimated cost of \$165 million. The most frequently dispensed items include aspirin, dietary supplements, and alcohol prep pads. VA physicians and others are concerned that veterans who need such products may lack the resources to purchase them and, as a result, not use them. However, only a few VA pharmacies restrict which veterans may receive OTC products or how many are provided. While many veterans shared a modest portion of the costs of the OTC products, in most cases, the veterans paid no copayments and VA absorbed the total costs of these OTC products.

Unlike VA, other public and private health care plans cover few, if any, OTC products for their beneficiaries. These plans' coverage of OTC products is more restrictive than all but a few of VA's facilities. In addition, VA facilities provide other features, such as free prescription mail service, that are commonly not available from other plans. As a result, VA facilities devote significant resources to the provision of OTC products that other plans have elected not to cover.

GAO's assessment of VA's operating practices suggests several ways that budget savings could be achieved. First, VA could more narrowly define when to provide OTC products, reducing the number of OTC products available to veterans on an outpatient basis. Second, VA could collect copayments for all OTC products. CBO estimates that these steps would save the following amounts.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	60	66	73	80	87
Outlays	54	64	71	79	86

Source: Congressional Budget Office.

Related GAO Products

Veterans' Affairs: Observations on Selected Features of the Proposed Veterans' Millennium Health Care Act (GAO/T-HEHS-99-125, May 19, 1999).

VA Health Care: Opportunities to Significantly Reduce Outpatient Pharmacy Costs (GAO/HEHS-97-15, Oct. 11, 1996).

GAO Contact

Stephen P. Backhus, (202) 512-7101

**750 Administration of
Justice**

Develop Criteria for Determining When Weed and Seed Sites Are Self-Sustaining
Consolidate Asset Forfeiture Programs at the Departments of Justice and Treasury
Complete Criminal Alien Deportation Proceedings to Avoid Unneeded Detention Costs

Develop Criteria for Determining When Weed and Seed Sites Are Self-Sustaining

Authorizing committees	Senate Judiciary Committee, Subcommittee on Criminal Justice Oversight House Judiciary Committee, Subcommittee on Crime
Appropriations subcommittees	Commerce, Justice, State, The Judiciary and Related Agencies (Senate) Commerce, Justice State and Judiciary (House)
Primary agency	Department of Justice
Account	Weed and Seed Program Fund (15-8586)
Spending type	Discretionary
Budget subfunction	754/Criminal justice assistance
Framework theme	Reassess objectives

Weed and Seed is a community-based, multiagency program that proposes to “weed out” crime from targeted neighborhoods, then “seed” the site with a variety of programs and resources to prevent crime from recurring. Interested communities, approved by the Executive Office of Weed and Seed, can apply for a Weed and Seed grant. Grantees are expected to become self-sustaining by leveraging additional resources from nonprogram sources. Although many grantees have received funding for several years, the program has not reduced or withdrawn any Weed and Seed grantee’s funds because of the site’s progress toward becoming self-sustaining.

In order to promote self-sufficiency, the program should develop criteria for determining when sites are self-sustaining and when to reduce or withdraw program funding. Achieving self-sufficiency could reduce overall program funding levels. While CBO agrees that savings could occur if the Congress reduced funding levels based on increased efficiencies, it cannot estimate savings until a specific proposal is identified.

Related GAO Product

Federal Grants: More Can Be Done to Improve Weed and Seed Program Management (GAO/GGD-99-110, July 16, 1999).

**Appendix III
Options for Increased Savings and Revenue
Gains**

GAO Contact

Laurie E. Ekstrand, (202) 512-8777

**Consolidate Asset
Forfeiture Programs at
the Departments of
Justice and Treasury**

Authorizing committees	Senate Judiciary Committee, Subcommittee on Criminal Justice Oversight House Judiciary Committee, Subcommittee on Crime
Appropriations subcommittees	Commerce, Justice, State, The Judiciary and Related Agencies (Senate) Commerce, Justice, State and Judiciary (House)
Primary agency	U.S. Marshals Service (DOJ) and Customs Service (Treasury)
Account	DOJ—Assets Forfeiture Fund (15-5042) Department of Treasury Forfeiture Fund (20-5697)
Spending type	Permanent indefinite appropriation (Congress must authorize in annual appropriations act use of DOJ fund for certain investigative expenses.)
Budget subfunction	752/Federal litigative and judicial activities (DOJ fund) 751/Federal law enforcement activities (Treasury fund)
Framework theme	Improve efficiency

Federal asset forfeiture programs at the departments of Justice and the Treasury, with combined inventories valued at \$1.8 billion as of September 30, 1997, have not adequately focused on managing the items seized. Justice and the Treasury continue to operate two similar but separate seized asset management and disposal programs without plans for consolidation, despite legislation requiring them to develop a plan to consolidate post-seizure administration of certain properties.

The Congress may wish to pursue further consolidation of the management of these programs. Consolidating the management and disposition of all noncash seized property could reduce administrative costs by millions annually. CBO cannot estimate the savings or additional costs that would result from this option until specific proposals are identified.

Related GAO Products

High-Risk Series: Asset Forfeiture Programs (GAO/HR-99-1, Jan. 1999).

**Appendix III
Options for Increased Savings and Revenue
Gains**

Major Management Challenges and Program Risks: Department of Justice
(GAO/OCG-99-10, Jan. 1999).

Asset Forfeiture: Historical Perspective on Asset Forfeiture Issues
(GAO/T-GGD-96-40, Mar. 19, 1996).

*Asset Forfeiture: Noncash Property Should Be Consolidated Under the
Marshals Service* (GAO/GGD-91-97, June 28, 1991).

*Asset Forfeiture: Opportunities for Savings Through Program
Consolidation* (GAO/T-GGD-91-22, Apr. 25, 1991).

GAO Contact

Laurie E. Ekstrand, (202) 512-8777

Complete Criminal Alien Deportation Proceedings to Avoid Unneeded Detention Costs

Authorizing committees	House Judiciary Committee, Subcommittee on Immigration & Claims Senate Judiciary Committee, Subcommittee on Immigration
Appropriations subcommittees	Commerce, Justice, State, The Judiciary and Related Agencies (Senate) Commerce, Justice, State and Judiciary
Primary agency	Immigration and Naturalization Service
Account	INS Salaries and Expenses, with supplemental funding from Violent Crime Reduction Trust Fund (15-1217)
Spending type	Discretionary
Budget subfunction	751/Federal law enforcement activities
Framework theme	Improve efficiency

The Immigration and Naturalization Service's (INS) Institutional Hearing Program (IHP) (now called the Institutional Removal Program) is the Department of Justice's main vehicle for placing aliens who are incarcerated in state and federal prisons into deportation proceedings so that they can be deported expeditiously upon release from prison. During 6-month periods in 1995 and 1997, INS failed to identify nearly 2,000 potentially deportable aliens before they completed their prison sentences, resulting in their release into communities in the United States before determining their risk to public safety. Hundreds were aliens who committed aggravated felonies who, by law, should have been placed in removal proceedings while in prison and taken into INS custody upon release. Some were subsequently rearrested for new crimes, including felonies.

Even when INS determined that an alien was potentially deportable and should be placed into removal proceedings, INS did not complete the IHP for at least half of such cases in each year. As a result, INS took many of the released criminal aliens into custody and completed the removal process for them subsequent to prison release. As a result of this failure to complete the IHP before prison release, INS incurred substantial avoidable detention costs.

Possible steps that INS could take to improve this situation include using a workload analysis model to help it determine resource needs for

completing IHPs on all eligible aliens and giving priority to completing the IHP for aliens serving time for aggravated felonies. Fully implementing these recommendations could help INS avoid millions in annual detention costs. CBO agrees that this option could potentially yield savings; however, it cannot develop an estimate until specific proposals are identified.

Related GAO Products

Immigration and Naturalization Service: Overview of Management and Program Challenges (GAO/T-GGD-99-148, July 29, 1999).

Criminal Aliens: INS' Efforts to Identify and Remove Imprisoned Aliens Continue to Need Improvement (GAO/T-GGD-99-47, Feb. 25, 1999).

Major Management Challenges and Program Risks: Department of Justice (GAO/OCG-99-10, Jan. 1999).

Criminal Aliens: INS' Efforts to Remove Imprisoned Aliens Continue to Need Improvement (GAO/GGD-99-3, Oct. 16, 1998).

Criminal Aliens: INS' Efforts to Identify and Remove Imprisoned Aliens Need to Be Improved (GAO/T-GGD-97-154, July 15, 1997).

GAO Contact

Laurie E. Ekstrand, (202) 512-8777

**800 General
Government, 900 Net
Interest, and 999
Multiple**

- Eliminate Pay Increases After Separation in Calculating Lump-Sum Annual Leave Payments
- Open the Government Printing Office to Competition
- Eliminate the 1-Dollar Note
- Recognize the Costs Up-front of Long-Term Space Acquisitions
- Increase Fee Revenue From Federal Reserve Operations
- Repeal the Davis-Bacon Act
- Target Funding Reductions in Formula Grant Programs
- Adjust Federal Grant Matching Requirements
- Prevent Delinquent Taxpayers From Benefiting From Federal Programs

Eliminate Pay Increases After Separation in Calculating Lump-Sum Annual Leave Payments

Authorizing committees	Governmental Affairs (Senate) Government Reform (House)
Appropriations subcommittees	Multiple
Primary agency	Office of Personnel Management
Account	Multiple
Spending type	Discretionary
Budget subfunction	Multiple
Framework theme	Improve efficiency

Employee pay and benefits is one of many areas of the federal budget receiving congressional attention because of scarce federal resources. One such benefit is an employee's entitlement under 5 U.S.C. 5551(a) to receive a lump-sum payment for any accumulated, unused annual leave upon separation from federal service. In calendar year 1996, the cost of lump-sum leave payments to separating civilian employees was about \$562 million governmentwide. GAO was requested to identify any personnel cost savings that could be achieved from limiting the lump-sum leave payment to the employee's pay rate at the time of separation, instead of the current method of assuming the employee had remained in service until the entire leave balance had expired.

Based in part on GAO's information and analysis, CBO estimated that agencies could realize personnel cost savings of \$20 million over 5 years if lump-sum annual leave payments were limited to the rate of pay at the time of separation. If the Congress enacted such a limitation, no General Schedule (GS) pay increases that go into effect following an employee's separation would be added to the payment calculation. To illustrate how small the maximum reduction in payments would be to individual separating employees, GAO calculated what the maximum reduction in lump-sum leave payments would have been to separating employees in January 1996 at various GS pay levels if the net 2.54 percent pay increase had been eliminated from their lump-sum leave payments. For example, GAO reported that the maximum reduction for an average GS-15 pay level would be from \$86 to \$128, depending on the amount of accrued annual leave.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the 2000 funding level					
Budget authority	4	4	4	4	4
Outlays	4	4	4	4	4

Source: Congressional Budget Office.

Related GAO Product

Federal Civilian Personnel: Cost of Lump-Sum Annual Leave Payments to Employees Separating From Government (GAO/GGD-97-157, May 29, 1997).

GAO Contact

Michael Brostek, (202) 512-3909

Open the Government Printing Office to Competition

Authorizing committees	Committee on House Administration Senate Committee on Rules and Administration
Appropriations subcommittees	Legislative Branch (Senate) Legislative (House)
Primary agency	Government Printing Office
Account	Multiple
Spending type	Discretionary
Budget subfunction	Multiple
Framework theme	Reassess objectives

While there are limited exceptions, including those granted by the former Joint Committee on Printing, the Government Printing Office (GPO) effectively has a statutory monopoly over printing for the federal government—either by contracting with commercial sources or producing work in-house. GPO, which receives over \$100 million in annual appropriations, also controls distribution, pricing, and allocation of revenues for government documents through sales agent contracts. GPO's monopoly-like role in providing printing services perpetuates inefficiency because centralized control permits GPO to be insulated from market forces. As a result of its monopoly, the agency does not have incentives to improve operations and processes that will ensure quality services at competitive prices.

The Congress may wish to consider changing the legislation that requires agencies to go through GPO to procure printing services. Federal agencies could be given the authority to make their own printing policies, requiring GPO to compete with private sector printing service providers. If GPO is unable to provide quality service at competitive prices, the need for retaining a government printing office could then be reexamined.

Although savings from this option are likely, CBO cannot develop savings estimates until a specific legislative proposal is identified.

Related GAO Products

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

Appendix III
Options for Increased Savings and Revenue
Gains

Government Printing: Legal and Regulatory Framework is Outdated for New Technological Environment (GAO/NSIAD-94-157, Apr. 15, 1994).

Government Printing Office: Monopoly-Like Status Contributes to Inefficiency and Ineffectiveness (GAO/GGD-90-107, Sept. 26, 1990).

GAO Contact

Bernard L. Ungar (202) 512-8387

Eliminate the 1-Dollar Note

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Banking and Financial Services (House)
Appropriations subcommittees	Treasury and General Government (Senate) Treasury, Postal Service, and General Government (House)
Primary agency	Department of the Treasury
Account	United States Mint Public Enterprise Fund (20-4159)
Spending type	Direct/Governmental Receipts
Budget subfunction	803/Central fiscal operations
Framework theme	Improve efficiency

Replacing the 1-dollar note with a new 1-dollar coin would save the government hundreds of millions of dollars annually. Substituting a dollar coin for a dollar note could yield over \$450 million of savings to the government per year, on average, over a 30-year period. The savings come about because a coin lasts longer than paper money; the Federal Reserve has lower processing costs with coins than paper money; and a coin would result in interest savings from the additional seigniorage earned on a coin (i.e., the difference between the face value of a coin and its production cost).

In the past, the executive branch has not supported the replacement of the \$1 note with a coin because of the belief that the Congress would respond to public pressure and allow both the coin and note to be used. All Western economies now use a coin for monetary transactions at the same value that Americans use the more costly paper note. These countries have demonstrated that public resistance to such a change can be managed and overcome. The U.S. has released a new gold-colored dollar coin this year. While initial demand for the coin has been strong, for it to realize its savings potential, the note has to be eliminated. With proper congressional oversight, public resistance to elimination of the \$1 note could be overcome and public support for the coin improved.

Even though this option would result in significant long-term savings, it does not yield savings over the first 5 years, as scored by CBO. First, seigniorage, which would lower interest costs to the government by

replacing the need to borrow from the public, is not included in the savings estimate because it is not considered part of the budget. Second, while the initial 5-year window captures much of the additional cost for the U.S. Mint to produce and stockpile a sufficient number of 1-dollar coins for circulation, it includes only a fraction of the savings to the Federal Reserve System from lower production and processing costs.

Related GAO Products

A Dollar Coin Could Save Millions (GAO/T-GGD-95-203, July 13, 1995).

1-Dollar Coin Reintroduction Could Save Millions if It Replaced the 1-Dollar Note (GAO/T-GGD-95-146, May 3, 1995).

1-Dollar Coin: Reintroduction Could Save Millions if Properly Managed (GAO/GGD-93-56, Mar. 11, 1993).

National Coinage Proposals: Limited Public Demand for New Dollar Coin or Elimination of Pennies (GAO/GGD-90-88, May 23, 1990).

GAO Contact

Bernard L. Ungar, (202) 512-8387

Recognize the Costs Up-front of Long-Term Space Acquisitions

Authorizing committees	Environment and Public Works (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Treasury and General Government (Senate) Treasury, Postal Service, and General Government (House)
Primary agency	General Services Administration
Account	Federal Buildings Fund (47-4542)
Spending type	Discretionary
Budget subfunction	804/General property and records management
Framework theme	Improve efficiency

Building ownership through construction or lease-purchase—where ownership of the asset is transferred to the government at the end of the lease period—is generally less costly than meeting agencies’ long-term requirements through ordinary operating leases. However, GAO has reported over the last decade that General Services Administration (GSA) relies heavily on operating leases to meet the long-term space needs of the federal government. In March 1999, GAO reported that for nine major operating lease acquisitions GSA proposed between fiscal years 1994 and 1996, construction would have been the least cost option in eight cases. In these eight cases, lease-purchase was estimated to be more costly than construction, but less than the operating lease option GSA proposed. For example, the present value cost for the operating lease to meet the Patent and Trademark Office’s long-term requirements in northern Virginia was estimated to be about \$973 million. Construction was estimated to be \$925 million—\$48 million less—and lease-purchase was estimated at \$935 million—or \$38 million less than the operating lease option. In total for these eight cases, construction and lease-purchase had cost advantages over operating leases estimated at about \$126 million and \$107 million, respectively.

Historically, the Federal Buildings Fund (FBF) has not generated sufficient revenue for constructing new office buildings. Operating leases have become an attractive option because the total costs do not have to be scored up-front and payments are spread out over time. However, as shown above, they are a costly alternative to ownership over the long-run. A lease-

purchase would seem to be a desirable alternative from GSA's point of view. However, the budget scorekeeping rules established in the Conference Report accompanying the Budget Enforcement Act of 1990 (BEA) effectively prevent GSA from taking advantage of this option. The scorekeeping rules require the total budget authority for lease-purchases to be recognized and recorded up-front in the year they are approved. Although GSA has viewed the up-front funding requirement as an impediment to meeting agency space needs cost effectively, it is generally recognized as an important tool for maintaining governmentwide fiscal control. That is, the rules prevent agencies and the Congress from committing the government to future payments that may exceed future resources and spending priorities.

Since lease-purchases are not a viable option for improving the cost-effectiveness of space acquisition, an option that could result in long-term savings for the government would be to recognize that many operating leases are used for long-term needs and should be treated on the same basis as the ownership options. This would make such instruments comparable in the budget to direct federal ownership and would foster more cost-effective decision-making by OMB and the Congress. Applying the principle of up-front full recognition of the long-term costs to all options for satisfying long-term space needs—construction, purchases, lease-purchases, or operating leases—is more likely to result in selecting the most cost-effective alternative than the current scoring rules.

It is important to note that there would be implementation challenges if this option is pursued. If operating leases were scored up-front, adjustments to the BEA caps would be necessary to accommodate the scoring change. For existing leases, the additional budget authority would need to be provided and the caps would initially have to be adjusted upward to recognize the higher up-front costs. The caps would be lowered in succeeding years to recognize the lower annualized costs. Such a change may also need to be phased in because of resource constraints. Finally, it would be difficult to reach agreement on what constitutes long-term space needs that would warrant this up-front budgetary treatment. GSA officials suggested in July 1997 that if changes to the scoring rules are made, all operating leases should be scored up-front. The GSA officials said that its leases no longer contain a clause permitting the government to terminate them for convenience and thus, its leases effectively commit the government for the term of the lease when they are signed. Even though this option would result in long-term savings, it does not yield savings over the first 5 years, as scored by CBO.

Related GAO Products

General Services Administration: Comparison of Space Acquisition Alternatives—Leasing to Lease-Purchase and Leasing to Construction (GAO/GGD-99-49R, March 12, 1999).

Space Acquisition Cost: Comparison of GSA Estimates for Three Alternatives (GAO/GGD-97-148R, Aug. 6, 1997).

Budget Issues: Budgeting for Federal Capital (GAO/AIMD-97-5, Nov. 12, 1996).

Budget Issues: Budget Scorekeeping for Acquisition of Federal Buildings (GAO/T-AIMD-94-189, Sept. 20, 1994).

Federal Office Space: Increased Ownership Would Result in Significant Savings (GAO/GGD-90-11, Dec. 22, 1989).

GAO Contact

Bernard L. Ungar, (202) 512-8387

Increase Fee Revenue From Federal Reserve Operations

Authorizing committees	Banking, Housing and Urban Affairs (Senate) Banking and Financial Services (House)
Primary agency	Federal Reserve Board
Spending type	Direct
Framework theme	Improve efficiency

The Federal Reserve is responsible for conducting monetary policy, maintaining the stability of financial markets, providing services to financial institutions and government agencies, and supervising and regulating banks and bank-holding companies. The Federal Reserve is unique among governmental entities in its mission, structure, and finances. Unlike federal agencies funded through congressional appropriations, the Federal Reserve is a self-financing entity that deducts its expenses from its revenue and transfers the remaining amount to the U.S. Department of the Treasury. Although the Federal Reserve's primary mission is to support a stable economy, rather than to maximize the amount transferred to Treasury, its revenues contribute to total U.S. revenues and, thus, can help reduce the federal deficit.

One way to enhance the Federal Reserve's revenue would be to charge fees for bank examinations, thus increasing the Federal Reserve's return to taxpayers. The Federal Reserve Act authorizes the Federal Reserve to charge fees for bank examinations, but the Federal Reserve has not done so, either for the state-member banks it examines or the bank-holding company examinations it conducts. Taxpayers in effect bear the cost of these examinations, which total hundreds of millions of dollars annually. If fees were assessed similar to those charged national banks with a credit allowed for fees paid to state regulators, the following savings could be achieved.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Savings from the CBO baseline					
Added receipts	40	42	44	46	48

Note: Estimates are presented net of the tax effect.

Source: Congressional Budget Office.

Related GAO Products

Federal Reserve Banks: Inaccurate Reporting of Currency at the Los Angeles Branch (GAO/AIMD-96-146, Sept. 30, 1996).

Federal Reserve System: Current and Future Challenges Require Systemwide Attention (GAO/T-GGD-96-159, July 26, 1996).

Federal Reserve System: Current and Future Challenges Require Systemwide Attention (GAO/GGD-96-128, June 17, 1996).

Federal Reserve Banks: Internal Control, Accounting, and Auditing Issues (GAO/AIMD-96-5, Feb. 9, 1996).

GAO Contact

Thomas J. McCool, (202) 512-8678

Repeal the Davis-Bacon Act

Authorizing committees	Health, Education, Labor and Pensions (Senate) Education and the Workforce (House)
Appropriations subcommittees	Multiple
Primary agency	Department of Labor
Accounts	Multiple
Spending type	Discretionary/Direct
Budget subfunctions	Multiple
Framework theme	Reassess objectives

The Davis-Bacon Act requires that workers on federally funded or federally assisted construction projects be paid wages at or above levels determined by the Department of Labor to be prevailing in an area. The current dollar threshold for projects covered by Davis-Bacon is \$2,000, an amount that has not changed since 1935. Critics of the act believe that it inflates federal construction costs because the wage rates set are actually higher than those prevailing in an area. Supporters say it sets a basic responsibility for federal construction contractors to pay wages typical in an area, not lower wage rates in order to receive a contract. They also argue that savings from lower wage rates would be offset by the higher total project costs from the use of less productive labor and also from government revenue losses as a result of reduced tax collections.

In 1979, GAO expressed major concern about the accuracy of the wage determinations and the impact of the inaccurately high wage rates on federal construction costs. Since that time, Labor has made changes that have improved the administration of the Davis-Bacon Act and made it less likely that the wage rates would be artificially high. For example, Labor has revised its criteria to require that 50 percent, rather than 30 percent, of the workers included on survey projects must receive the same wage for that rate to be considered the prevailing wage. This made it less likely that the collectively bargained wage rate in an area would be used to set the prevailing wage and, as of 1995, less than 30 percent of all of Labor's wage determinations were set in that way. In 1996, Labor also implemented recommendations to reduce the potential for its wage determinations to be based on erroneous wage data. There is still an absence of current data, though, on the accuracy of wage rates set.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Without making any assumptions about the accuracy of prevailing wage rates, but considering other factors such as recordkeeping duties required under the act, CBO concluded that Davis-Bacon inflates construction costs. On that basis, CBO has noted that repealing the Davis-Bacon Act or raising the threshold for projects it covers would allow appropriators to reduce funds spent on federal construction. In addition, either action would increase the opportunities for employment of less skilled workers. However, such changes would lower the earnings of some construction workers. If the Congress were to repeal the act, CBO estimates that the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Discretionary spending					
Savings from the 2000 funding level					
Spending authority	1,250	1,250	1,250	1,250	1,250
Outlays	265	710	975	1,105	1,190

Note: Spending authority includes budget authority, as well as obligation limitations from certain trust funds.

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Direct spending					
Savings from the CBO baseline					
Budget authority	25	30	30	30	30
Outlays	10	20	25	25	30

Source: Congressional Budget Office.

Related GAO Products

Davis-Bacon Act: Labor's Actions Have Potential to Improve Wage Determinations (GAO/HEHS-99-97, May 28, 1999).

Appendix III
Options for Increased Savings and Revenue
Gains

Davis-Bacon Act: Labor Now Verifies Wage Data, but Verification Process Needs Improvement (GAO/HEHS-99-21, January 11, 1999).

Information Regarding the Davis-Bacon Act (GAO/HEHS-97-30R, Oct. 30, 1996).

Information Regarding Davis-Bacon Wage Determinations (GAO/HEHS-96-177R, July 17, 1996).

Davis-Bacon Act: Process Changes Could Address Vulnerability to Use Inaccurate Data in Setting of Prevailing Wage Rates (GAO/T-HEHS-96-166, June 20, 1996).

Davis-Bacon Act Job Targeting Programs (GAO/HEHS-96-15R, June 3, 1996).

Davis-Bacon Act: Process Changes Could Raise Confidence That Wage Rates Are Based on Accurate Data (GAO/HEHS-96-130, May 31, 1996).

Changes to the Davis-Bacon Act Regulations and Administration (GAO/HEHS-94-95R, Feb. 7, 1994).

The Davis-Bacon Act Should Be Repealed (GAO/HRD-79-18, Apr. 27, 1979).

GAO Contact

Cynthia M. Fagnoni, (202) 512-7215

Target Funding Reductions in Formula Grant Programs

Authorizing committees	Multiple
Appropriations subcommittees	Multiple
Primary agencies	Multiple
Accounts	Multiple
Spending type	Discretionary/Direct
Budget subfunctions	Multiple
Framework theme	Redefine beneficiaries

Many federal grant programs with formula-based distribution of funds to state and local governments are not well targeted to jurisdictions with high programmatic needs but comparatively low funding capacity. As a result, it is not uncommon that program recipients in areas with greater wealth and relatively lower needs may enjoy a higher level of services than that which is available in harder pressed areas. Alternatively, these wealthier areas can provide the same level of services but at lower tax rates than harder pressed areas.

At a time when federal discretionary resources are increasingly constrained, better targeting of formula-based grant awards offers a strategy to bring down federal outlays by concentrating reductions in wealthier localities with comparatively fewer needs and greater capacity to absorb the cuts. At the same time, redesigned formulas could hold harmless the hardest pressed areas that are most vulnerable. For example, three entitlement programs—Medicare, Foster Care, and Adoption Assistance—reimburse approximately 55 percent of eligible state spending with the federal share ranging from a minimum of 50 to a maximum of 83 percent depending on the per capita income of the state. There are a variety of ways in which budgetary savings could be achieved to improve the targeting of these programs, including:

- Reduce the minimum federal reimbursement rate to below 50 percent. This example would focus the burden of the reduced federal share on those states with the highest per capita income. To the extent that per capita income provides a reasonable basis for comparing state tax bases, this example would require states with the strongest tax bases to shoulder the burden of a reduced federal share.

- Reduce federal reimbursement rates only for those states with comparatively low program needs and comparatively strong tax bases. Under this example, the matching formula could be revised to better reflect the relative number of people in need, geographic differences in the cost of services, and state tax bases. Under the revised formula, states with comparatively low need and strong tax bases would receive lower federal reimbursement rates while states with high needs and weak tax bases would continue to receive their current reimbursement percentage. This example would focus the burden of a reduced federal share in those states with the lowest need and the strongest ability to fund program services from state resources.

Many other formulas used to distribute federal grant funding do not recognize the differential fiscal capacities of states to provide benefits from their own resources. Moreover, many of these formulas have not been reassessed for years or even decades. One option that would realize budgetary savings in non-entitlement programs such as these would be to revise the funding formula to reflect the strength of state tax bases. A new formula could be calibrated so that funding is maintained in states or local governments with weak tax bases, to maintain needed program services, but reduced in high tax base states, to realize budgetary savings. Examples of these types of formula grant programs include the following.

- **Federal Aid Highways:** This program, the largest non-entitlement formula grant program, allocates funds among the states based on their historic share of funding. This approach reflects antiquated indicators of highway needs, such as postal road miles and the land area of the state.
- **Title III, Older Americans Act:** This program is intended to address the needs of individuals with high economic and social needs, yet the funding formula allots funding based on all elderly, regardless of their needs.
- **Community Development Block Grant:** This program allocates funds among local governments based on housing age and condition, population, and poverty, and does not include a factor recognizing local wealth or fiscal capacity. For example, Greenwich, Connecticut received five times more funding per person in poverty in 1995 than that provided to Camden, New Jersey, even though Greenwich, with per capita income six times greater than Camden, could more easily afford to fund its own community development needs. This disparity is due to the formula's recognition of older housing stock and population and its exclusion of fiscal capacity indicators.

**Appendix III
Options for Increased Savings and Revenue
Gains**

An option that illustrates the potential savings from targeting formula grant programs is a 10 percent reduction in the aggregate total of all close-ended or capped formula grant programs exceeding \$1 billion.³ The dollar value for programs exceeding this threshold would include about 80 percent of the dollars for such programs. The savings achieved through this option, as estimated by CBO, could serve as a benchmark for overall savings from this approach but should not be interpreted as a suggestion for across-the-board cuts. Rather, as the above examples indicate, the Congress may wish to determine specific reductions on a program-by-program basis, after examining the relative priority and performance of each grant program.

Five-Year Savings

Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Discretionary spending					
Savings from the 2000 funding level					
Budget authority	2,346	3,419	3,419	3,419	3,419
Outlays	1,522	4,381	12,657	6,172	6,453

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Direct spending					
Savings from the CBO baseline					
Budget authority	5,323	5,265	5,251	5,208	5,174
Outlays	482	592	890	1,617	2,239

Source: Congressional Budget Office.

³In the transportation function, several very small, close-ended grants could not be easily isolated in the baseline and these are included in the estimate.

GAO Products

Formula Grants: Effects of Adjusted Population Counts on Federal Funding to States (GAO/HEHS-99-69, Feb. 26, 1999).

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

Welfare Reform: Early Fiscal Effect of the TANF Block Grant (GAO/AIMD-98-137, Aug. 22, 1998).

Public Housing Subsidies: Revisions to HUD's Performance Funding System Could Improve Adequacy of Funding (GAO/RCED-98-174, June 19, 1998).

School Finance: State Efforts to Equalize Funding Between Wealthy and Poor School Districts (GAO/HEHS-98-92, June 16, 1998).

School Finance: State and Federal Efforts to Target Poor Students (GAO/HEHS-98-36, Jan. 28, 1998).

School Finance: State Efforts to Reduce Funding Gaps Between Poor and Wealthy Districts (GAO/HEHS-97-31, Feb. 5, 1997).

Federal Grants: Design Improvements Could Help Federal Resources Go Further (GAO/AIMD-97-7, Dec. 18, 1996).

Public Health: A Health Status Indicator for Targeting Federal Aid to States (GAO/HEHS-97-13, Nov. 13, 1996).

School Finance: Options for Improving Measures of Effort and Equity in Title (GAO/HEHS-96-142, Aug. 30, 1996).

Highway Funding: Alternatives for Distributing Federal Funds (GAO/RCED-96-6, Nov. 28, 1995).

Ryan White Care Act of 1990: Opportunities to Enhance Funding Equity (GAO/HEHS-96-26, Nov. 13, 1995).

Department of Labor: Senior Community Service Employment Program Delivery Could Be Improved Through Legislative and Administrative Action (GAO/HEHS-96-4, Nov. 2, 1995).

**Appendix III
Options for Increased Savings and Revenue
Gains**

GAO Contact

Paul L. Posner, (202) 512-9573

Adjust Federal Grant Matching Requirements

Authorizing committees	Multiple
Appropriations subcommittees	Multiple
Primary agency	Multiple
Account	Multiple
Spending type	Discretionary/Direct
Budget subfunction	Multiple
Framework theme	Redefine beneficiaries

Intergovernmental grants are a significant part of both federal and state budgets. From the first annual cash grant under the Hatch Act of 1887, the number of grant programs rose to more than 900 in 1999 with outlays of \$262 billion, about 15 percent of total federal spending. Grants serve many purposes beyond returning resources to taxpayers in the form of state services. For example, grants can serve as a tool to supplement state spending for nationally important activities. However, if states use federal grant dollars to reduce (i.e., substitute for) their own spending for the aided program either initially or over time, the fiscal impact of federal grant dollars is reduced.

Public finance experts suggest that grants are unlikely to supplement completely a state's own spending, and thus some substitution is to be expected in any grant. GAO's review of economists' recent estimates of substitution suggests that every additional federal grant dollar results in less than a dollar of total additional spending on the aided activity. The estimates of substitution showed that about 60 cents of every federal grant dollar substitutes for state funds that states otherwise would have spent.

GAO's analysis linked substitution to the way in which most grants are designed. For example, many of the 87 largest grant programs did not include features, such as state matching and maintenance-of-effort requirements, that can encourage states to use federal funds as a supplement rather than a replacement for their own spending. While not every grant is intended to supplement state spending, proponents of grant redesign argue that if some grants incorporated more rigorous maintenance-of-effort requirements and lower federal matching rates, then fewer federal funds could still encourage states to contribute to approximately the same level of overall spending on nationally important

programs. Critics of this approach argue that such redesign would put a higher burden on states because they would have to finance a greater share of federally aided programs.

The savings that could be achieved from redesigning grants to increase their fiscal impact would depend on the nature of the design changes and state responses to those changes. For example, faced with more rigorous financing requirements, states might reduce or eliminate their own financial support for the aided activity. The outcome will be influenced by the tradeoff decisions that the Congress makes to balance the importance of achieving each program's goals and objectives against the goal of encouraging greater state spending and lowering the federal deficit.

GAO was unable to precisely measure the budgetary impact of inflation-adjusted maintenance-of-effort requirements because current state spending levels are not reported consistently. However, it was possible to estimate the impact of changes in the matching rates on many close-ended federal grants. For example, many such grants do not require any state or local matching funds. The federal share of these programs could be reduced modestly, for example from 100 percent to 90 percent, a reduction unlikely to discourage states from participating in the program. CBO estimates that the introduction of a 10 percent matching requirement on some of the largest federal discretionary grant programs that are currently 100 percent federally funded, and a corresponding 10 percent reduction from the authorized grant levels, would result in the savings shown below. If such a change in match rates were combined with inflation-adjusted maintenance-of-effort requirements, states that choose to participate in the program would have to maintain the same or increase levels of program spending in order to receive federal funding.

Five-Year Savings					
Dollars in millions					
	FY01	FY02	FY03	FY04	FY05
Discretionary spending					
Savings from the 2000 funding level					
Budget authority	2,307	3,558	3,558	3,558	3,558
Outlays	770	2,534	3,256	3,455	3,519

Source: Congressional Budget Office.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Savings

Dollars in millions

	FY01	FY02	FY03	FY04	FY05
Direct spending					
Savings from the CBO baseline					
Budget authority	170	170	170	170	170
Outlays	151	168	170	170	170

Source: Congressional Budget Office.

Related GAO Products

Welfare Reform: Early Fiscal Effects of the TANF Block Grant
(GAO/AIMD-98-137, Aug. 22, 1998).

*Federal Grants: Design Improvements Could Help Federal Resources Go
Further* (GAO/AIMD-97-7, Dec. 18, 1996).

Block Grants: Issues in Designing Accountability Provisions
(GAO/AIMD-95-226, Sept. 1, 1995).

GAO Contact

Paul L. Posner, (202) 512-9573

Prevent Delinquent Taxpayers From Benefiting From Federal Programs

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Redefine beneficiaries

The federal government's operations are funded primarily through tax revenue collected from the nation's taxpayers. In fiscal year 1999, the federal government, through the Internal Revenue Service (IRS), collected nearly \$1.9 trillion in federal tax revenue to finance government operations. However, while most taxpayers comply with their tax obligation, a significant portion of taxpayers do not. Over time, this has led to unpaid taxes, penalties, and interest, which totaled about \$222 billion at the end of fiscal year 1998. Of this amount, IRS estimates that only \$26 billion, about 11 percent, will be collected.

A significant number of taxpayers, both individuals and businesses, who owe the federal government billions of dollars in delinquent taxes receive significant federal benefits and other federal payments. In addition to Social Security Administration benefit payments, federal civilian retirement payments, and federal civilian salaries, payments on federal contracts and Small Business Administration loans are also provided to these delinquent taxpayers. Currently, federal law does not prevent businesses or individuals from receiving federal payments or loans when they are delinquent in paying federal taxes.

The Office of Management and Budget's (OMB) Circular A-129 provides policies for the administration of federal credit programs. These policies specifically direct agencies to determine whether applicants are delinquent on any federal debt, including tax debt, and to suspend the processing of credit applications if applicants have outstanding tax debt until such time as the applicant pays the debt or enters into a payment plan. Unfortunately, these policies have not been effective in preventing the disbursement of federal dollars to individuals and businesses with delinquent taxes. Given this, the Congress may wish to consider legislation that would make the criteria in the OMB circular for determining the creditworthiness of applicants for federal credit programs generally applicable and thus prevent delinquent taxpayers from benefiting from federal programs while

disregarding their tax obligations. This could serve as an incentive for delinquent taxpayers seeking federal assistance to fulfill their tax obligations, thus improving overall compliance and reducing the federal government's balance of uncollectible tax assessments. CBO cannot score this option until a specific proposal is developed.

Related GAO Products

Unpaid Payroll Taxes: Billions in Delinquent Taxes and Penalty Assessments Are Owed (GAO/AIMD/GGD-99-211, Aug. 2, 1999).

Tax Administration: Billions in Self-Employment Taxes Are Owed (GAO/GGD-99-18, Feb. 19, 1999).

GAO Contact

James R. White, (202) 512-9110

Receipts

Increase Collection of Returns Filed by U.S. Citizens Living Abroad
Increase the Use of Electronic Funds Transfer for Installment Tax
Payments
Limit the Tax Exemption for Employer-Paid Health Insurance
Tax Interest Earned on Life Insurance Policies and Deferred Annuities
Require Corporate Tax Document Matching
Improve Independent Contractor Tax Compliance
Further Limit the Deductibility of Home Equity Loan Interest
Improve Administration of the Tax Deduction for Real Estate Taxes
Repeal the Partial Exemption for Alcohol Fuels From Excise Taxes on
Motor Fuels
Shift Gasoline Excise Tax Collections to the Refinery Level
Index Excise Tax Bases for Inflation
Increase the Use of Seizure Authority to Collect Delinquent Taxes
Increase Collection of Self-Employment Taxes
Increase the Highway User Fees on Heavy Trucks
Impose Pollution Fees and Taxes

Increase Collection of Returns Filed by U.S. Citizens Living Abroad

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

U.S. citizens residing abroad are generally subject to the same filing requirements as citizens residing in the United States. The State Department estimated the total population of U.S. citizens living abroad at about 3.1 million in 1995, excluding active military and current government personnel. Some evidence suggests that the failure to file tax returns may be relatively prevalent in some segments of the U.S. population abroad, and the revenue impact, while unknown, could be significant.

IRS' ability to identify and collect taxes from nonfilers residing abroad is restricted by the limited reach of U.S. laws in foreign countries, particularly U.S. laws on tax withholding, information reporting, and enforced collection through liens, levies, and seizures. Another factor that could contribute to nonfiling abroad is the ambiguity in IRS' filing instructions for its Form 1040 and related guidance. For example, it may not be clear that income qualifying for the foreign earned income or housing expense exclusions must be considered in determining whether one's gross income exceeds the filing threshold.

In pursuing nonfilers abroad, IRS has not fully explored the usefulness of passport application data as a means of identifying potential nonfilers. While passport applications contain no income information, they could be used to collect applicants' social security number, age, occupation, and country of residence.

IRS may want to take additional steps to enforce the current information requirement that all passport applicants provide their social security numbers and to assess the additional cost of requiring country of residence and occupation as a means of identifying potential nonfilers abroad. IRS may also want to clarify its instructions for determining what income must be considered in determining whether gross income exceeds the filing threshold. Initial projects to increase the number of returns filed from

Appendix III
Options for Increased Savings and Revenue
Gains

overseas suggests that the potential increase in tax revenues would justify the costs to improve compliance.

JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

Related GAO Products

Tax Administration: Nonfiling Among U.S. Citizens Abroad
(GAO/GGD-98-106, May 11, 1998).

IRS Activities to Increase Compliance on Overseas Taxpayers
(GAO/GGD-93-93, May 18, 1993).

United States Citizens Residing in Foreign Countries and Not Filing Federal Income Tax Returns (Accession #126891, GAO/GGD, May 8, 1985 testimony).

GAO Contact

James R. White, (202) 512-9110

Increase the Use of Electronic Funds Transfer for Installment Tax Payments

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

The Internal Revenue Code authorizes IRS to allow taxpayers to pay their taxes in installments, with interest, if this arrangement would facilitate collection of the liability. As of September 1997, IRS had about 2.9 million installment agreements outstanding, worth about \$13.2 billion. At the end of fiscal year 1997, approximately 43 percent of these installment agreements were in default.

A number of states use electronic funds transfer (EFT) to make their installment agreement program more efficient and effective. One state, Minnesota, requires taxpayers to pay by EFT, with some exceptions. As of late 1997, approximately 90 percent of Minnesota's installment agreements were EFT agreements, and the default rate had dropped from about 50 percent to between 3 percent and 5 percent in the 2 years the EFT requirement has been in effect. In California, within 6 months of implementing its EFT procedures, its default rate for new installment agreements dropped from around 40 percent to 5 percent.

EFT payments also produce administrative savings through lower processing costs involved in recording and posting remittances, lower postage and handling costs associated with sending monthly payment reminders, and lower collection enforcement costs needed to pursue fewer taxpayers in default. IRS' initial comparison of the cost of EFT payments with the cost of having taxpayers send installment payments to lockboxes in commercial banks showed that EFT payment costs were about 37 percent less than the lockbox costs.

The reported benefits for IRS of using EFT for installment agreement payments include the potential to reduce the percentage of taxpayer defaults, decrease administrative costs, and achieve faster collections.

JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

Appendix III
Options for Increased Savings and Revenue
Gains

Related GAO Products

Tax Administration: Increasing EFT Usage for Installment Agreements Could Benefit IRS (GAO/GGD-98-112, June 10, 1998).

Tax Administration: Administrative Improvements Possible in IRS' Installment Agreement Program (GAO/GGD-95-137, May 2, 1995).

GAO Contact

James R. White, (202) 512-9110

Limit the Tax Exemption for Employer-Paid Health Insurance

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Redefine beneficiaries

The current tax treatment of health insurance—amounting to revenue losses of about \$92 billion in 2000—gives few incentives to workers to economize on purchasing health insurance. Employer contributions for employee health protection are considered deductible, ordinary business expenses and employer contributions are not included in an employee's taxable income. The same is true for a portion of the premiums paid by self-employed individuals. Some analysts believe that the tax-preferred status of these benefits has contributed to the overuse of health care services and large increases in our nation's health care costs. In addition, the primary tax benefits accrue to those in high tax brackets who also have above average incomes.

Placing a cap on the amount of health insurance premiums that could be excluded—including in a worker's income the amount over the cap—could improve incentives and, to a lesser extent, tax equity. Alternatively, including health insurance premiums in income but allowing a tax credit for some percentage of the premium would improve equity since tax savings per dollar of premium would be the same for all taxpayers. Incentives could be improved for purchasing low-cost insurance if the amounts given credits were capped.

One specific option the Congress may wish to consider would be to tax all employer-paid health insurance, while providing individuals a refundable tax credit of 20 percent of premiums that they or their employers would pay, with eligible premiums capped at \$425 and \$175 per month for family coverage and individuals, respectively. This option recognizes the gain from changing the treatment of insurance only for the individual income tax, not the payroll tax.

JCT did not develop a revenue estimate for this option due to uncertainty in determining the amount of health insurance that would be purchased given a repeal of the employer exclusion.

**Appendix III
Options for Increased Savings and Revenue
Gains**

GAO Product

Tax Policy: Effects of Changing Tax Treatment of Fringe Benefits
(GAO/GGD-92-43, Apr. 7, 1992).

GAO Contact

James R. White, (202) 512-9110

Tax Interest Earned on Life Insurance Policies and Deferred Annuities

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Reassess objectives

Interest earned on life insurance policies and deferred annuities, known as “inside buildup,” is not taxed as long as it accumulates within the contract. Although the deferred taxation of inside buildup is similar to the tax treatment of income from some other investments, such as capital gains, it differs from the policy of taxing interest as it accrues on certain other investments, such as certificates of deposit and original issue discount bonds.

Not taxing inside buildup may have merit if it increases the amount of insurance coverage purchased and the amount of income available to retirees and beneficiaries. However, the tax preference given life insurance and annuities mainly benefits middle- and upper-income people. Coverage for low-income people is largely provided through the Social Security System, which provides both insurance and annuity protection.

The Congress may wish to consider taxing the interest earned on life insurance policies and deferred annuities. The table below reflects JCT’s estimated savings from this option, effective for life insurance policies and annuities purchased after December 31, 1999. Investment income from annuities purchased as part of a qualified individual retirement account would be tax-deferred until benefits were paid.

Five-Year Revenues

Dollars in billions

	FY01	FY02	FY03	FY04	FY05
Revenue gain	11.1	22.5	23.2	23.8	24.5

Note: JCT provided its revenue estimates in billions of dollars.
Source: Joint Committee on Taxation.

Appendix III
Options for Increased Savings and Revenue
Gains

Related GAO Product *Tax Policy: Tax Treatment of Life Insurance and Annuity Accrued Interest*
(GAO/GGD-90-31, Jan. 29, 1990).

GAO Contact James R. White, (202) 512-9110

Require Corporate Tax Document Matching

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

IRS' document matching program for payments to individuals has proven to be a highly cost-effective way of bringing in billions of dollars in tax revenues to the Treasury while at the same time boosting voluntary compliance. However, unlike payments to individuals, the law does not require that information returns be submitted on most payments to corporations.

Generally using IRS' assumptions, GAO estimated the benefits and costs for a corporate document matching program that would cover interest, dividends, rents, royalties, and capital gains. Assuming that a corporate document matching program began in 1993, GAO estimated that for years 1995 through 1999, IRS' annual costs would be about \$70 million and annual increased revenues about \$1 billion. This estimate did not factor in compliance costs and changes in taxpayer behavior. Given increased corporate noncompliance, and declining audit coverage, the Congress may wish to require a corporate document matching program.

JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

Related GAO Product

Tax Administration: Benefits of a Corporate Document Matching Program Exceed the Costs (GAO/GGD-91-118, Sept. 27, 1991).

GAO Contact

James R. White, (202) 512-9110

Improve Independent Contractor Tax Compliance

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

Common law rules for classifying workers as employees or independent contractors are unclear and subject to conflicting interpretations. While recognizing this ambiguity, the Internal Revenue Service (IRS) enforces tax laws and rules through employment tax examinations. Through fiscal year 1995, 90 percent of these examinations had found misclassified workers. From October 1987 through December 1991, the average IRS tax assessment relating to misclassified workers was \$68,000.

Establishing clear rules is difficult. Nevertheless, taxpayers need—and the government is obligated to provide—clear rules for classifying workers if businesses are to voluntarily comply. In addition, improved tax compliance could be gained by requiring businesses to (1) withhold taxes from payments to independent contractors and/or (2) file information returns with IRS on payments made to independent contractors constituted as corporations. Both approaches have proven to be effective in promoting individual tax compliance.

During 1993, the Congress considered but rejected extending current information reporting requirements for unincorporated independent contractors to incorporated ones. Thus, independent contractors organized as either sole proprietors or corporations would have been on equal footing, and IRS would have had a less intrusive means of ensuring their tax compliance.

In recent years, various proposals on clarifying the definition of independent contractors and improving related information reporting emerged. Congressional hearings dealt with some of these bills.

GAO believes that revenues from this option could possibly increase by billions of dollars. JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

Appendix III
Options for Increased Savings and Revenue
Gains

Related GAO Products

Tax Administration: Estimates of the Tax Gap for Service Providers
(GAO/GGD-95-59, Dec. 28, 1994).

Tax Administration: Approaches for Improving Independent Contractor Compliance (GAO/GGD-92-108, July 23, 1992).

GAO Contact

James R. White, (202) 512-9110

Further Limit the Deductibility of Home Equity Loan Interest

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of the Treasury
Spending type	Direct
Framework theme	Reassess objectives

The term home equity borrowing or financing is usually applied to mortgages other than the original loan used to acquire a home or to any subsequent refinancing of that loan. Interest is deductible on up to \$100,000 of home equity indebtedness and \$1 million of indebtedness used to acquire a home. Home equity financing is not limited to home-related uses and can be used to finance additional consumption by borrowers.

Use of mortgage-related debt to finance nonhousing assets and consumption purchases through home equity loans could expose borrowers to increased risk of losing their homes should they default. Equity concerns may exist because middle- and upper-income taxpayers who itemize primarily take advantage of this tax preference, and such an option is not available to people who rent their housing.

One way to address the issues concerning the amounts or uses of home equity financing would be to limit mortgage interest deductibility up to \$300,000 of indebtedness for the taxpayer's principal and second residence. Assuming an effective date of January 1, 2001, JCT estimates that this option would generate the following revenues.

Five-Year Revenues					
Dollars in billions					
	FY01	FY02	FY03	FY04	FY05
Revenue gain	2.6	3.7	4.1	4.5	4.9

Note: JCT provided its revenue estimates in billions of dollars.

Source: Joint Committee on Taxation.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Related GAO Product

Tax Policy: Many Factors Contributed to the Growth in Home Equity Financing in the 1980s (GAO/GGD-93-63, Mar. 25, 1993).

GAO Contact

James R. White, (202) 512-9110

Improve Administration of the Tax Deduction for Real Estate Taxes

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

IRS audits show that individuals overstated their real estate tax deductions by about \$1.5 billion nationwide in 1988. GAO estimates that this resulted in a nearly \$300 million federal tax loss, which would increase to about \$400 million for 1992. However, this may understate lost revenues because GAO's review also found that IRS auditors detected only about 29 percent of \$127 million in overstated deductions in three locations GAO reviewed. Revenues could be lost not only for the federal government, but also for the 31 states which in 1991 tied their itemized deductions to those used for federal tax purposes.

Two changes to the reporting of real estate cash rebates and real estate taxes could reduce noncompliance and increase federal tax collections. First, the Congress could require that states report to IRS, and to taxpayers on Form 1099s, cash rebates of real estate taxes. Second, the Congress could require that state and local governments conform real estate tax statements to specifications issued by IRS that would separate real estate taxes from nondeductible fees, which are often combined on these statements.

For estimation purposes, the proposals would be effective for rebates issued after December 31, 1999, and for amounts reported on tax bills after December 31, 2000. JCT estimates that the proposals together, would increase federal fiscal revenues as shown in the table below.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Revenues

Dollars in billions

	FY01	FY02	FY03	FY04	FY05
Revenue gain	---	*	*	0.1	0.2

Note: JCT provided its revenue estimates in billions of dollars.

-- not effective for refunds issued before 12/31/00 and amounts reported on tax bills before 12/31/01

* less than \$50 million

Source: Joint Committee on Taxation.

Related GAO Product

Tax Administration: Overstated Real Estate Tax Deductions Need To Be Reduced (GAO/GGD-93-43, Jan. 19, 1993).

GAO Contact

James R. White, (202) 512-9110

Repeal the Partial Exemption for Alcohol Fuels From Excise Taxes on Motor Fuels

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Redefine beneficiaries

The tax code partially exempts biomass-derived alcohol fuels—made from nonfossil material of biological origin—from excise taxes on motor fuels. The tax code also provides that income tax credits for alcohol fuel use may be claimed instead of the excise tax exemption. However, the credit is in almost all cases less valuable than the exemption and is rarely used.

Tax incentives that encourage alternatives to fossil fuels might have merit if energy security or environmental benefits were realized. However, if alcohol fuel use was not subsidized it is unlikely that U.S. energy security or air quality would be significantly affected. Even with tax subsidies, alcohol fuels are not competitive in price with fossil fuels in most markets. In 1995, alcohol fuels accounted for less than 1 percent of total U.S. energy consumption. The incentives have not created enough usage to affect the likelihood of an oil price shock. Nor could their use be expanded enough to counter such a shock given existing production technologies. Use of oxygenated fuels, such as ethanol-gasoline mixtures in motor vehicles, generally produce less carbon monoxide pollution than does straight gasoline. However, the Clean Air Act Amendments of 1990 reduced the need for an ethanol subsidy by mandating the minimum oxygen content of gasoline in areas with poor air quality. The global warming effects of using ethanol are likely to be no better than, and could be worse than, those of gasoline.

The Congress may wish to consider repealing the partial excise tax exemption and the alcohol fuels tax credit. The repeal could result in higher federal outlays for price support loan programs, but any increase in outlays probably would be much smaller than the estimated revenue increase. The tax incentives are scheduled to expire at the end of fiscal year 2000. The table below reflects JCT's estimated savings from this option.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Revenues

Dollars in billions

	FY01	FY02	FY03	FY04	FY05
Revenue gain	0.4	0.6	0.6	0.6	0.6

Note: JCT provided its revenue estimates in billions of dollars.

Source: Joint Committee on Taxation.

Related GAO Product

Tax Policy: Effects of the Alcohol Fuels Tax Incentives (GAO/GGD-97-41, Mar. 6, 1997).

GAO Contact

James R. White, (202) 512-9110

Shift Gasoline Excise Tax Collections to the Refinery Level

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

Although reliable statistical data do not exist to estimate gasoline excise tax evasion, the Department of Transportation estimated in a report to the Congress that such evasion amounted to about \$500 million annually. From a tax administration perspective, moving the collection point for gasoline excise taxes from the terminal to the refinery level may reduce tax evasion because (1) gasoline would change hands fewer times before taxation, (2) refiners are presumed to be more financially sound and have better records than other parties in the distribution system, and (3) fewer taxpayers would be involved. However, industry representatives raise competitiveness and cost-efficiency questions associated with moving the collection point.

In a May 1992 report, GAO suggested that the Congress explore the level of gasoline excise tax evasion and, if it was found to be sufficiently high, move tax collection to the point at which gasoline leaves the refinery. The amount of revenue that would be generated from moving the collection point for gasoline excise taxes would depend on the accuracy of the \$500 million estimate of evasion and how well the move curbed such evasion. JCT estimates that moving tax collection to the point at which the gasoline leaves the refinery would result in the following revenue gains.

Five-Year Revenues

Dollars in billions	FY01	FY02	FY03	FY04	FY05
Revenue gain	0.8	*	*	*	*

Note: JCT provided its revenue estimates in billions of dollars.

* less than \$50 million

Source: Joint Committee on Taxation.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Related GAO Product

Tax Administration: Status of Efforts to Curb Motor Fuel Tax Evasion
(GAO/GGD-92-67, May 12, 1992).

GAO Contact

James R. White, (202) 512-9110

Index Excise Tax Bases for Inflation

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Redefine beneficiaries

Federal excise taxes are sometimes set at a fixed dollar amount per unit of taxed good. For example, alcoholic beverages are taxed at a set rate per gallon or barrel, with the rate varying for different types of beverages and differing concentrations of alcohol. When set in this manner, the real dollar value of the tax falls with inflation.

The real dollar value of these taxes can be maintained over time if the tax is indexed for inflation or set as a percentage of the price of the taxed product or service. Tax policy issues would need to be considered, and administrative difficulties may be encountered, but they are not insurmountable. The Congress may wish to consider indexing excise tax rates for alcohol and tobacco. The table reflects JCT's estimated revenue gains from this option with an effective date of January 1, 2001.

Five-Year Revenues

Dollars in billions

	FY01	FY02	FY03	FY04	FY05
Revenue gain	0.3	0.6	0.9	1.2	1.5

Note: JCT provided its revenue estimates in billions of dollars.

Source: Joint Committee on Taxation.

Related GAO Products

Alcohol Excise Taxes: Simplifying Rates Can Enhance Economic and Administrative Efficiency (GAO/GGD-90-123, Sept. 27, 1990).

Tax Policy: Revenue Potential of Restoring Excise Taxes to Past Levels (GAO/GGD-89-52, May 9, 1989).

**Appendix III
Options for Increased Savings and Revenue
Gains**

GAO Contact

James R. White, (202) 512-9110

Increase the Use of Seizure Authority to Collect Delinquent Taxes

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

The Internal Revenue Service's (IRS) use of its statutory authority to seize taxpayer assets has been instrumental in bringing into compliance (i.e., full pay status) many delinquent taxpayers who had been unresponsive to other tax collection efforts, including demands for payment through letters, phone calls, personal visits, and levies on bank accounts and wages. Of the approximately 8,300 taxpayers whose assets were seized by IRS in fiscal year 1997, about 42 percent became fully tax compliant—resolving about \$186 million in tax debts—as a result of the seizures. In total, the seizure of taxpayer property in fiscal year 1997 resulted in resolving about \$235 million, about 22 percent, of the \$1.1 billion of tax debts owed by the 8,300 taxpayers.

IRS' use of seizure authority is in a period of transition as IRS adapts to the requirements of the IRS Restructuring and Reform Act of 1998. During this transition the number of seizures has declined about 98 percent. IRS employees told GAO that seizures have nearly stopped because of their uncertainty over the act's seizure requirements and IRS' slow development of workable policies and procedures implementing the act. IRS national office officials indicated to GAO that they expected the number of seizures to rebound as changes to the seizure program are implemented and employees adapt to the new requirements.

To facilitate the anticipated rebound and to help ensure that seizure authority is used when warranted, GAO has made a number of recommendations to IRS. In part, GAO recommended that IRS provide written guidance to employees on when seizure action ought to be taken, that is, the conditions and circumstances that would justify seizure action and the responsibilities of senior managers to ensure that such actions are taken. Until such a rebound in seizures takes place, IRS is at risk of foregoing the collection of millions of dollars—almost \$235 million as indicated by the 1997 data.

**Appendix III
Options for Increased Savings and Revenue
Gains**

JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

Related GAO Product

IRS Seizures: Needed for Compliance but Processes for Protecting Taxpayer Rights Have Some Weaknesses (GAO/GGD-00-4, Nov. 29, 1999).

GAO Contact

James R. White (202) 512-9110

Increase Collection of Self-Employment Taxes

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

Self-employed taxpayers can get Social Security benefits based on earnings for which they did not pay taxes because the Social Security Act requires the Social Security Administration to grant earnings credits, which are used to determine benefit eligibility and amounts, and pay benefits without regard to whether the Social Security taxes have been paid. As of September 1997, more than 1.9 million self-employed taxpayers were delinquent in paying \$6.9 billion in self-employment taxes. Also, more than 144,000 taxpayers with delinquent self-employment taxes of \$487 million were receiving about \$105 million annually in monthly Social Security benefits.

While the Internal Revenue Service's (IRS) ability to collect self-employment taxes before taxpayers become delinquent is hampered because there is no withholding on self-employment income, most self-employed taxpayers are required to make estimated tax payments. However, as of September 1997, about 90 percent of the delinquent self-employed taxpayers required to make estimated tax payments did not.

In the past, there have been proposals to deny social security credits to taxpayers who fail to pay their self-employment taxes and to require withholding on certain self-employment income. No actions were taken on these proposals. One way to collect self-employment taxes before taxpayers become delinquent that does not require a law change would be to encourage more self-employed individuals to make their required estimated tax payments. IRS could do this by establishing a program to remind previously noncompliant taxpayers (i.e., those who were assessed an estimated tax penalty the previous year) to make such payments.

JCT agrees that the option has the potential for increased revenue but has not developed estimates of revenue gain.

Appendix III
Options for Increased Savings and Revenue
Gains

Related GAO Product	<i>Tax Administration: Billions in Self-Employment Taxes Are Owed</i> (GAO/GGD-99-18, Feb. 19, 1999).
----------------------------	--

GAO Contact	James R. White (202) 512-9110
--------------------	-------------------------------

Increase Highway User Fees on Heavy Trucks

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

To develop and maintain highways, the Federal Highway Administration (FHWA) collects user fees (taxes). In fiscal year 1998, FHWA collected about \$27.4 billion from general highway user taxes, including fuel taxes, a heavy vehicle use tax, an excise tax on truck and tractor sales, and an excise tax on heavy tires. For many years, questions have been raised concerning whether highway users, including owners of heavy trucks, pay taxes in proportion to the wear and tear that their vehicles impose on highway pavement.

In 1982, the Congress passed the first major increase in federal highway use taxes since 1956 in order to increase highway revenues and to respond to a FHWA report that heavy trucks underpaid by about 50 percent their fair share relative to the pavement damage that they caused. FHWA also reported that lighter trucks were overpaying by between 30 and 70 percent (depending on weight), and automobiles were overpaying by 10 percent. The 1982 tax increase required that the ceiling for the heavy vehicle use tax be increased from \$240 a year to \$1,900 a year by 1989. In response to the concerns of the trucking industry about the new tax structure, the Congress again revised the system in the Deficit Reduction Act of 1984. Under the act, the ceiling for the heavy vehicle use tax was lowered from \$1,900 to \$550 a year. To ensure that this action was revenue neutral, the Congress raised the tax on diesel fuel from 9 cents to 15 cents per gallon.

As GAO recommended in June 1994, FHWA conducted a cost allocation study. The study, released in August 1997, noted that the overall equity of highway user fees could be incrementally improved by implementing either a weight-distance tax or eliminating the existing \$550 cap on the Heavy Vehicle Use Tax. However, the study made no recommendations and the administration plans no action other than to continue to monitor highway user fees. JCT estimates that removing the \$550 cap on the Heavy Vehicle Use Tax would result in the revenue gains shown in the table below.

**Appendix III
Options for Increased Savings and Revenue
Gains**

Five-Year Revenues

Dollars in billions

	FY01	FY02	FY03	FY04	FY05
Revenue gain	0.1	0.1	0.1	0.1	0.1

Note: JCT provided its revenue estimates in billions of dollars.

Source: Joint Committee on Taxation.

Related GAO Product

Highway User Fees: Updated Data Needed To Determine Whether All Users Pay Their Fair Share (GAO/RCED-94-181, June 7, 1994).

GAO Contact

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

Impose Pollution Fees and Taxes

Authorizing committees	Finance (Senate) Ways and Means (House) Environment and Public Works (Senate) Transportation and Infrastructure (House)
Primary agency	Environmental Protection Agency
Spending type	Direct
Framework theme	Redefine beneficiaries

User fees, cost reimbursement mechanisms, and pollution taxes could be designed as a way to control pollutants and harmful substances by preventing their further generation, thus supplementing regulatory efforts to meet the objectives of existing environmental laws. These mechanisms also produce significant revenues that could help defray the costs of administering environmental protection programs. GAO has identified several specific areas where fees and taxes might be effective, including, but not limited to (1) requiring states to collect permit fees on industrial and municipal dischargers to surface waters and (2) establishing a pollution tax on dischargers, based on volume, toxicity, or both.

An example of a pollution fee which the Congress may wish to consider is an excise tax on toxic water pollutants. Savings below illustrate a tax on water pollution discharges whose rate increases with the toxicity of the discharges, effective on discharges of water pollutants made after December 31, 1999. Rates range from \$0.65 per pound for the least toxic pollutant to \$63.40 per pound for the most toxic pollutant. Over time, revenue from a pollution fee tax should decline because the intent of such a tax is to provide an incentive to reduce the amount of pollutants generated.

Five-Year Savings

Dollars in billions					
	FY01	FY02	FY03	FY04	FY05
Revenue gain	0.1	0.2	0.2	0.2	0.2

Note: JCT provided its revenue estimates in billions of dollars.

Source: Joint Committee on Taxation.

Related GAO Products

Environmental Protection: Implications of Using Pollution Taxes to Supplement Regulation (GAO/RCED-93-13, Feb. 17, 1993).

Hazardous Waste: Much Work Remains to Accelerate Facility Cleanups (GAO/RCED-93-15, Jan. 19, 1993).

Drinking Water: Widening Gap Between Needs and Available Resources Threatens Vital EPA Program (GAO/RCED-92-184, July 6, 1992).

Water Pollution: Stronger Efforts Needed by EPA to Control Toxic Water Pollution (GAO/RCED-91-154, July 19, 1991).

Environmental Protection: Meeting Public Expectations With Limited Resources (GAO/RCED-91-97, June 18, 1991).

GAO Contact

Peter F. Guerrero, (202) 512-6111

Options Not Updated for This Report

The following table provides information on options presented in earlier versions of this series that are not included in this product. Fifteen options from our last report are not included in this report because (1) the option was fully or substantially acted upon by the Congress or the cognizant agency, (2) the option was no longer appropriate due to environmental changes or the aging of our work, or (3) the Congress or the cognizant agency chose a different approach to address the issues discussed in the option. We will continue to monitor many of these options to assess whether underlying issues are ultimately resolved based on the actions taken. It is possible that some of the issues discussed below may appear in subsequent editions of this series.

Option (budget function)	Comments
DOD Transportation Migration Systems Budget Option (050)	Before continuing with its system migration efforts, the Department of Defense (DOD) established cost and schedule baselines along with functional economic analyses to determine which migration systems could be a poor investment, as discussed in this option. DOD's analysis, however, did not identify any migration systems for termination.
Air Force Fighter Squadrons (050)	The Air Force indicated in its fiscal year 1999 budget that it would consolidate five squadrons, as discussed in this option. Furthermore, according to an Air Combat Command official, three additional squadrons are expected to be consolidated in fiscal year 1999 and five squadron consolidations are planned for fiscal years 2000 and 2001.
Fiscal Year 2000 Military Personnel Budget Requirements (050)	Our option pertained to the 1999 DOD budget request and was considered during that year's appropriations process.
DOD's Fiscal Year 2000 Civilian Personnel Budget Requirements (050)	Our option pertained to the 1999 DOD budget request and was considered during that year's appropriations process.
DOD's Finance and Accounting Infrastructure (050)	This option was consolidated with the Defense Infrastructure Reform option.
International Broadcasting (150)	The International Broadcasting Board of Governors completed a comprehensive review of international broadcasting operations, which will result in the elimination of 45 jobs and a reduction of service in 16 languages. The Board has stated that this is the first step in realignments planned over several years aimed at using funds more efficiently, supporting emerging democracies, and making use of the Internet and other media to deliver programming, consistent with the intent of this option.
Reducing Department of Energy Contractor Travel Costs (270)	The Congress reduced the Department of Energy's appropriation for contractor travel to \$125,000,000 in fiscal year 2000 as discussed in this option.
Non-Time-Critical Removals in Superfund Cleanups (300)	The Environmental Protection Agency (EPA) is increasing its use of non-time-critical removals, as discussed in this option and is potentially cutting the time and cost of cleanups.
USDA Telecommunications and Information Systems (350)	With the Department of Agriculture's (USDA) transition to the new FTS 2001 system, new service options are being implemented and costs associated with the old FTS 2000 tariff structure no longer apply.

Continued

Appendix IV
Options Not Updated for This Report

Option (budget function)	Comments
Agriculture Research Service Funding (350)	The Agricultural Research, Extensions, and Reform Act of 1998 was enacted to ensure, among other things, that federally funded agriculture research address high-priority concerns. The act requires that USDA establish procedures that ensure scientific peer review of all research activities conducted by the department, as discussed in this option.
Efficient Use of Debt Collection Tools to Recover Supplemental Security Income Overpayments (600)	The Foster Care Independence Act of 1999 authorized the Social Security Administration to intercept federal and state payments owed to individuals and use debt collection agencies, interest levies, and credit bureau reporting, as discussed in this option, to recover Supplemental Security Income overpayments.
Resource Transfers to Qualify for Supplemental Security Income (600)	The Foster Care Independence Act of 1999 imposes a period of ineligibility for Supplemental Security Income (SSI) benefits, as discussed in this option, for individuals who dispose (transfer) of assets at less than fair market value in order to qualify for SSI.
Federal Travel Processing (800)	Key recommendations made by the Joint Financial Management Program, which mirror best practices GAO suggested in this option, have been incorporated into law and have contributed to agency savings and increased efficiencies.
Expanding Use of Alternative Dispute Resolution (999)	Steps have been taken to expand the use of Alternative Dispute Resolution (ADR) in federal sector workplace disputes, as discussed in this option. In November 1999, the Equal Employment Opportunity Commission implemented regulations requiring that agencies make ADR processes available to employees in both the precomplaint and formal complaint stages of an equal employment opportunity complaint. In September 1998, the Interagency Alternative Dispute Resolution Working Group was initiated to facilitate and encourage agency use of ADR processes, including in workplace disputes.
Electronic Filing of Tax Returns (Receipts)	The Congress enacted the Internal Revenue Service Restructuring and Reform Act of 1998, which says that "it should be the goal of [IRS] to have at least 80 percent of all [tax and information] returns filed electronically by the year 2007." Subsequently, IRS developed and issued a strategy, as suggested in this option, that is "designed to eliminate barriers, provide incentives, and use competitive market forces to make significant progress toward" the 80-percent goal.
Information Reporting on Forgiven Debts (Receipts)	As suggested in this option, the Ticket to Work and Work Incentives Improvement Act of 1999 expanded to all lending institutions the requirement of reporting forgiven debts to IRS. This new information is useful to ensure taxpayer compliance because forgiven debts are to be reported as income.

Continued from Previous Page

GAO Contacts and Staff Acknowledgments

GAO Contacts

Hundreds of people throughout GAO were responsible for either preparing the options included in this product or producing the reports and testimonies that form the basis for the options. At the end of each option, a key contact name is provided to address questions pertaining to the specific option.

Staff Acknowledgments

Michael J. Curro, Hannah R. Laufe, Adriel M. Harvey, and Toni J. Wehman made key contributions to this report. Questions may be directed to these contributors at (202) 512-9573.

Ordering Information

The first copy of each GAO report is free. Additional copies of reports are \$2 each. A check or money order should be made out to the Superintendent of Documents. VISA and MasterCard credit cards are accepted, also.

Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013

Orders by visiting:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders by phone:

(202) 512-6000
fax: (202) 512-6061
TDD (202) 512-2537

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

Orders by Internet:

For information on how to access GAO reports on the Internet, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web home page at:

<http://www.gao.gov>

To Report Fraud, Waste, or Abuse in Federal Programs

Contact one:

- Web site: <http://www.gao.gov/fraudnet/fraudnet.htm>
- e-mail: fraudnet@gao.gov
- 1-800-424-5454 (automated answering system)

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested

<p>Bulk Rate Postage & Fees Paid GAO Permit No. GI00</p>

