



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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The Honorable Robert N. Giaimo
Chairman, Committee on the Budget
House of Representatives

Dear Mr. Chairman:

We have reviewed the recent report written by your Committee's Task Force on Tax Expenditures and Off-Budget Agencies entitled "Off-Budget Activities of the Federal Government" (House Report 94-1740). We are pleased to note that the recommendations of the report that six Government-owned activities which are presently off-budget be included in the budget, and that the budget status of the Federal Financing Bank be studied, are similar to the views we have expressed in our reports and testimony over the years.

The President's Commission on Budget Concepts, of which I was a member, recommended guidelines as to the form of the budget with particular reference to programs which should be included or excluded from the budget totals. The Commission concluded that all programs operated by entities in which the capital stock is owned by the Government, or which have recourse to Federal funds, should be included in the budget. The Commission viewed as its most important recommendation the adoption of the unified budget concept under which all Federal activities financed with Federal funds would be included. The Commission's recommendations--including a unified budget--were adopted in 1969. The General Accounting Office has long favored the principles expressed by the President's Commission on Budget Concepts of full disclosure to the Congress and review by the Congress of the budgetary program submitted by the executive branch.

Since the President's Commission report, legislation has been enacted to exempt several Federal programs from the discipline of the overall budget process. These programs presently include the Postal Service, the Rural Telephone Bank, the Rural Electrification and Telephone Revolving Fund, the Housing for the Elderly or Handicapped Fund, the United States Railway Association, the Pension Benefit Guarantee Corporation, and the Federal Financing Bank. On a number of occasions during the period when the above programs were exempted from the budget, we reiterated our opposition to off-budget status for Government-owned programs. The following are examples of our statements relevant to the off-budget problem.

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--In testimony before the Joint Study Committee on Budget Control (March 7, 1973), we reemphasized the recommendations of the President's Commission and the need to conform to the philosophy of full disclosure and congressional budgetary review when we stated:

* * * if it is to exercise effective control over Federal expenditures through the budget, the Congress should resist efforts to remove Federal activities from the budget. One action of this nature approved by the Congress in 1971, which we recommended against, was to exclude the Export-Import Bank from the unified budget. We believe that the budgetary system and congressional efforts to exercise better control over it should not be weakened by eliminating certain activities from the overall budget. The fundamental purpose of a single budget is to bring together in one place competing needs so that priorities may be more readily established and resources allocated with due regard to all factors.

--In commenting on legislation that eventually resulted in establishing the U.S. Railway Association as an off-budget Federal agency, we stated the following on October 10, 1973 (B-107449):

Our office has consistently taken the position that the public interest is best served when congressional control over Federal activities is exercised through annual reviews and affirmative action on planned programs and financing requirements which attend the appropriation processes, and through application of statutes and regulations which usually govern the operations of Government agencies. We believe that departures from the standard should be permitted only on a clear showing that an activity cannot be successfully operated in the public interest through the framework of a new Government agency or through an expansion of programs in existing Government agencies.

If a corporation such as the proposed association is considered the form of organization best suited for achieving the objectives of the bill, we suggest that it be made subject to the Government Corporation Control Act, 31 U.S.C. 841 et seq. * * *. The association would then be subject to the budgetary review process contemplated by sections 102, 103, and 104 of the Government Corporation Control Act * * *.

--Concerning the off-budget status of the Federal Financing Bank, we stated on March 18, 1974 (B-162718):

We believe it appropriate that the activities of the Federal Financing Bank, like those of all other Government agencies, be included in the budget totals * * *.

As we understand it, among the arguments of those opposing the legislation are contentions that the Federal Financing Bank is unique, that it is not a program agency; that its activities will create neither expenditures nor borrowings that will not otherwise occur; and that its activities are in effect a consolidation of the financing activities of other Federal programs. It is also argued that exclusion from the budget is necessary to assure neutrality with respect to the budget status of programs the Bank would be dealing with.

We disagree fundamentally with the "budget neutrality" argument. Rather, we agree with the President's Budget Concepts Commission of 1967 that all agencies and programs should be subjected to the test of inclusion in the budget totals and the consequent priority evaluations and judgments.

Further, it is not clear to us that the other cited arguments are valid. To the extent that Federal Financing Bank activities simply mirror or duplicate the activities of other agencies or programs, these activities can and should be netted out of budget totals as is done in many other areas of the budget. It appears likely, however, that some activities of the Bank will not be duplicative of amounts otherwise included in the budget for a given year. These activities should be reflected in the budget and included in budget totals.

In summary, let me emphasize our agreement with your Committee that the existence of major Federal activities outside the budget is a matter for serious concern. There are no differences between activities of off-budget programs and other programs which are included in the budget. Therefore, excluding a program's receipts and disbursements from the budget totals is normally undesirable and sets a precedent for the exclusion of other programs. In addition, the exclusion of such programs weakens the budgetary process and reduces the ability of the Congress to establish national priorities under the Congressional Budget Act of 1974. Furthermore, the magnitude of current off-budget activities is sufficiently large to partially undermine the credibility and analytical usefulness of the unified budget. Thus, we have consistently opposed the creation of "off-budget" agencies except in the very specific and limited circumstances recognized by the Commission. These conditions were, in effect, that the activity in question be owned and controlled by private parties, such as the Federal National Mortgage Association. In the cases noted earlier, these conditions do not appear to have been met. We are pleased to note that the activities

of the Export-Import Bank, the first of the off-budget activities, were moved back on to the budget in fiscal year 1977. We encourage this precedent.

In addition to our general concern with the off-budget status of Federal programs, we are also concerned about the special budgetary problems posed by the off-budget Federal Financing Bank. We believe that good budgetary control is weakened by Federal Financing Bank purchase of guaranteed loans of on- and off-budget agencies. The purchase of guaranteed loans by the Federal Financing Bank changes the nature of these Federal credit programs to direct Government loans from loan guarantees. During fiscal year 1976, the Federal Financing Bank provided \$6.1 billion for loans guaranteed by on- and off-budget agencies. Estimates for this activity in fiscal year 1977 and fiscal year 1978 are \$8.7 billion and \$6.0 billion, respectively.

We have several concerns with this arrangement. First, it is a questionable practice to substitute direct loans for another form of credit assistance whose function it is to fill some other purpose. A second and more obvious concern has to do with loss of controllability over a relatively large amount of direct loan activity. That is, because of the Federal Financing Bank's purchase of guaranteed loans, a large volume of direct loans which would normally be reported at face value in the budget are being transferred to off-budget status. Thus, they are excluded from the resource allocation and control processes established by the Congressional Budget Act of 1974.

During the coming year, we plan to undertake detailed reviews of both the off-budget status of Government-owned activities and the budget status and implications of the Federal Financing Bank in separate reports to the Congress. I believe that these reports, together with the recommendations included in your Committee's report, will help to support legislative action to return the off-budget entities to the budget and thereby reestablish the integrity of the unified budget as recommended by the President's Commission on Budget Concepts and to more effectively achieve the goal of the Congressional Budget Act of 1974 for the Congress to exercise control over all Federal expenditures through the budget process.

If we can be of further assistance to you on this matter, please let us know.

Sincerely yours,

(SIGNED) ELMER B. STANS

Comptroller General
of the United States