United States General Accounting Office

GAO

Report to the Congress

March 1995

ADDRESSING THE DEFICIT

Budgetary Implications of Selected GAO Work for Fiscal Year 1996

GAO/OCG-95-2

GAO

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

Comptroller General
of the United States

B-259261

March 15, 1995

To the President of the Senate and
the Speaker of the House of Representatives

In previous reports,[1] we have stressed to the Congress and the public the urgent need for deficit reduction. This report is part of our continuing effort to help the Congress identify options that could be used to reduce the deficit. This year's report follows work we began last year in Addressing the Deficit: Budgetary Implications of Selected GAO Work (GAO/OCG-94-3, March 11, 1994). This report, like its predecessor, systematically identifies in a single document the budgetary implications of selected policy changes and program reforms discussed in our work but not yet implemented or enacted. Of the 120 options presented in this report, 52 are updated and 68 are new. Most, if not all, of the options have already been provided to interested congressional staff.

Narrative descriptions are presented in appendix III of this report organized by budget function and receipts. Some of these options reflect our recommendations; most do not, but rather represent one way to address, in a budgetary context, some of the significant problems identified in our evaluations of federal policies and programs. Inclusion of a specific option in this report does not mean that we endorse it as the only or most feasible approach or that other spending reductions or revenue increases are not also appropriate for consideration by the Congress.

We have also provided the analytical framework that we developed last year to provide a structure for congressional consideration of individual options in this report. The framework, presented in appendix II, is organized around three broad themes:

- reassess objectives, that is, reconsider whether to terminate or revise services and programs provided;
- redefine beneficiaries, that is, reconsider a program's intended audience; and
- improve efficiency, that is, reconsider how a program or service is provided.

[1] Budget Policy: Prompt Action Necessary to Avert Long-term Damage to the Economy (GAO/OCG-92-2, June 5, 1992) and The Budget Deficit: Outlook, Implications, and Choices (GAO/OCG-90-5, September 12, 1990).

This framework provides one set of criteria that may be used to assess goals, scope, and approaches for delivering federal programs.

To determine budgetary effects, each spending option was discussed with the Congressional Budget Office (CBO), and each revenue option was discussed with the Joint Committee on Taxation (JCT). Where possible, estimates of budgetary savings or revenue gains were developed by CBO and JCT. Where estimates are not provided, a brief explanation and discussion is included with the option. A further discussion of the savings estimates is included in appendix I.

Under the Budget Enforcement Act (BEA), as amended, the spending and revenue options included in this report could be used either to reduce the deficit or to provide funds for other programs. Under the pay-as-you-go (PAYGO) rules of BEA, savings from direct spending programs (entitlement and mandatory programs) or revenue options would reduce the deficit unless these savings were used to offset either program expansions or tax cuts. For discretionary spending programs, savings from changes would contribute to additional deficit reduction only if BEA caps on discretionary spending were lowered; otherwise, the savings would be available for use in other discretionary programs.

Although we derived the options in this report from our existing body of work, there are similarities, not surprisingly, with other deficit reduction proposals. For example, some options contained in this report were included in the President's February 1995 budget submission, Budget of the United States Government, Fiscal Year 1996; the February 1995 CBO report, Reducing the Deficit: Spending and Revenue Options; and the March 1994 Republican Budget Initiative For Fiscal Year 1995.

We are sending copies of this report to appropriate congressional committees and other interested parties. Copies will be made available to others upon request.

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

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Contents

Abbreviations

ADCAP	advanced capability
AFDC	Aid to Families with Dependent Children
AIP	Airport Improvement Program
AOC	Administrative Office of the U.S. Courts
BBS	broad-based, sustainable
BEA	Budget Enforcement Act
BLM	Bureau of Land Management
BRAC	base realignment and closure
CBO	Congressional Budget Office
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act
CRP	Conservation Reserve Program
CSFP	Commodity Supplemental Food Program
CVP	Central Valley Project
DFAS	Defense Finance and Accounting Service
DGPS	differential global positioning system
DLA	Defense Logistics Agency
DOD	Department of Defense
DOE	Department of Energy
DOT	Department of Transportation
DUR	drug utilization review
EDWAA	economic dislocation and worker adjustment assistance

EM	Environmental Restoration and Waste Management
EPA	Environmental Protection Agency
FAA	Federal Aviation Administration
FAS	Foreign Agricultural Service
FDIC	Federal Deposit Insurance Corporation
FHWA	Federal Highway Administration
FmHA	Farmers Home Administration
FWS	Fish and Wildlife Services
FY	fiscal year
GAO	General Accounting Office
GSA	General Services Administration
HACCP	Hazard Analysis and Critical Point Control System
HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services
HMO	health maintenance organization
HUD	Department of Housing and Urban Development
ICC	Interstate Commerce Commission
IDB	industrial development bond
IFAD	International Fund for Agricultural Development
INS	Immigration and Naturalization Service
IRS	Internal Revenue Service
JAST	Joint Advanced Strike Technology
JCT	Joint Committee on Taxation
JTPA	Job Training Partnership Act
MAP	Military Airport Program
MPP	Market Promotion Program
MWR	morale, welfare, and recreation
NASA	National Aeronautics and Space Administration
NDAA	non-development airlift aircraft
NOAA	National Oceanic and Atmospheric Administration
NORAD	North American Aerospace Defense Command
NPR-1	Naval Petroleum Reserve-1
OCSE	Office of Child Support Enforcement
OMB	Office of Management and Budget
O&M	operation and maintenance
OPEC	Organization of Petroleum Exporting Countries
PAYGO	pay-as-you-go
PPS	Prospective Payment System
QMB	qualified mortgage bond
RFE/RL	Radio Free Europe/Radio Liberty
RHCDS	Rural Housing and Community Development Service

RTC	Resolution Trust Corporation
SINC	service industry noncompliance initiative
SKFB	soup kitchens/food banks
SPR	Strategic Petroleum Reserve
SSA	Social Security Administration
SSN	nuclear-powered attack submarine
TEFAP	The Emergency Food Assistance Program
TCMP	Taxpayer Compliance Management Program
TPU	Torpedo Propulsion Unit
USAO	U.S. Attorney Office
USDA	U.S. Department of Agriculture
USIA	United States Information Agency
USTRANSCOM	U.S. Transportation Command
UAV	unmanned aerial vehicle
VA	Department of Veterans Affairs
VOA	Voice of America

The Structure and Content of This Report

The options included in this report cover a wide range of federal policies and programs, reflecting the breadth of GAO's work responsibilities. To aid in using this report, each option is presented in a standard format in appendix III. The options are presented by budget function; options covering multiple functions appear separately, as do options involving receipts. Cognizant congressional committees and subcommittees and the responsible executive department or agency are indicated for each option. The applicable theme from the framework is also identified. For spending options, we also indicate the affected budget account and subfunction and whether the spending is discretionary or direct.

Each option is described in a brief narrative. Although these descriptions are intended to synopsize the key issues and problems developed in our audits and evaluations, readers are encouraged to refer to the related GAO products, listed at the end of each option, for a complete discussion.

Lastly, as noted in our letter, to determine savings and revenue estimates, each option was discussed with the CBO and JCT. If specific estimates could not be provided, a brief discussion is included with the option. Where estimates are provided, the following conventions were followed.[1]

- For revenue estimates, the increase in collections reflects that which would occur, over and above that 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 nondefense discretionary spending programs, two estimates are provided. One estimate is of savings compared to the actual fiscal year 1995 appropriations increased for projected inflation. A second estimate is of savings compared to fiscal year 1995 appropriations in nominal terms (held constant for the next 4 years).
- For defense discretionary spending programs, estimates are of savings compared to the President's 1995 fiscal year Defense Plan that CBO uses for its defense discretionary estimates. CBO uses this plan because it provides the programmatic detail necessary to estimate the effects of changes in force structures and weapons systems.

[1]For a complete discussion of the uses and caveats of the CBO estimates, see CBO's February 1995 report, Reducing the Deficit: Spending and Revenue Options.

Subsequent savings and revenue estimates provided by CBO and JCT may not match exactly those contained in this report. Differences in the 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 sales of real estate and other government-owned property—constitute asset sales. Under BEA, proceeds from the sale of federal government physical or financial assets cannot be counted as deficit reduction. However, both the President and some Members of the Congress have proposed asset sales to reduce the deficit. The President has proposed changing the scoring rules for asset sales for those sales that meet certain standards. Given this context, in order to provide policymakers the fullest possible picture of the budgetary implications of our work, we have included those options which constitute asset sales. They are clearly identified as such.

Finally, some of the options could not be estimated by CBO or JCT under current scorekeeping conventions. Several of these involve management improvements that we believe can contribute to solving the deficit problem, but where the effects are too indirect for estimation purposes. A few options are not estimated because they concern future choices about spending that is not currently in the baseline. In other cases, savings are likely to come in years beyond the 5-year estimation period that CBO uses.

A Framework for Deficit Reduction

The 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 deficit reduction proposals. Additionally, 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.

GAO's deficit reduction framework consists of three broad themes: reassess objectives, redefine beneficiaries, and improve efficiency and accuracy. 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 deficit reduction framework focuses on the objectives for 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 which 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 such that 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 Davis-Bacon Act requires that workers on federally assisted construction projects be paid wages at or above levels determined to be prevailing in the area. Weighing this objective against opportunities to reduce federal construction costs and increase work opportunities for less skilled workers, the Congress could consider GAO's option to reduce the scope or repeal Davis-Bacon.

Another example involves reassessing rice program objectives. If the Congress wanted to reduce high government costs and increase the U.S. share of the world rice market, it could consider GAO's option to move rice producers towards greater market orientation.

Redefine Beneficiaries

The second theme within our deficit reduction 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 which 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 at individuals, groups, or industries that directly benefit from federal programs. Also, existing charges can be increased so that a greater portion of a program's cost is shared by the direct beneficiaries.
- 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 GAO's option on formula grants.

Another example is the Market Promotion Program (MPP), an export promotion program that subsidizes overseas promotional activities for U.S. agricultural products. Given the possibility that federal funds may be replacing industry funds instead of supporting additional promotional activities, GAO provides an option to reduce spending and restrict remaining federal funds to small, generic, new-to-export companies.

Improve Efficiency

The third theme within our deficit reduction 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 which illustrate this strategy.

- Reorganizing 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 Department of Energy (DOE) and the Environmental Protection Agency (EPA) both procure commonly used analyses of toxic and radioactive contaminants in conjunction with their responsibilities for large environmental cleanup efforts. EPA spends less on these activities because, unlike DOE, EPA uses a centralized procurement system. GAO's option offers a way to reduce future costs by adapting DOE procurement to EPA's more efficient processes.

Also in keeping with the efficiency theme, GAO has identified a total of 163 federal programs and funding streams providing employment and training assistance. These programs are spread across 15 departments and independent agencies with a total budget of about $20 billion. Many of the programs have similar goals and provide the same services to similar populations using separate, parallel delivery structures. Consolidating these programs where it is appropriate can reduce administrative costs. GAO's option illustrates how opportunities to improve efficiency and flexibility in employment and training programs can provide a basis for reducing program funding.

Options for Deficit Reduction

Appendix III is divided into two sections. First, table III.1 is a summary listing of the options organized by budget function and receipts. Following the table, the presentation of individual options begins. This is organized by function beginning with 050-national defense. For each option, when relevant, we provide information about 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.

Table III.1: Summary of Options for Deficit Reduction

Option title	Budget function	BEA category	Framework theme	Status
Hunter joint tactical Unmanned Aerial Vehicle system	050-National defense	Discretionary	Reassess objectives	New
Reduce Army inventories of spare and repair parts at divisions	050-National defense	Discretionary	Improve efficiency	New
Improved material management can reduce shipyard costs	050-National defense	Discretionary	Improve efficiency	New
Reduce Army's unfilled war reserve requirements by using other inventory items	050-National defense	Discretionary	Improve efficiency	New
Defense infrastructure	050-National defense	Discretionary	Improve efficiency	Updated
Potential reductions to the fiscal year 1996 defense operation and maintenance budget	050-National defense	Discretionary	Improve efficiency	New
Alter readiness status of some ready reserve force ships	050-National defense	Discretionary	Reassess objectives	New
Upgrades to Navy F-14 fighter aircraft may not be needed	050-National defense	Discretionary	Reassess objectives	New
Options to acquire fewer attack submarines	050-National defense	Discretionary	Reassess objectives	New
Continental air defense	050-National defense	Discretionary	Improve efficiency	New
Carrier battle group expansions and upgrades	050-National defense	Discretionary	Improve efficiency	New
Army's Comanche helicopter	050-National defense	Discretionary	Reassess objectives	Updated
F-22 fighter	050-National defense	Discretionary	Reassess objectives	Updated
C-17 aircraft	050-National defense	Discretionary	Reassess objectives	Updated
MK-48 advanced capability torpedo propulsion system	050-National defense	Discretionary	Reassess objectives	Updated
Reassess defense conversion spending	050-National defense	Discretionary	Reassess objectives	New

(continued)

Option title	Budget function	BEA category	Framework theme	Status
Improve controls over payments to defense contractors	050-National defense	Discretionary	Improve efficiency	New
Defense inventories	050-National defense	Discretionary	Improve efficiency	Updated
Use prime vendors to supply high-volume clothing and textile items	050-National defense	Discretionary	Improve efficiency	New
Restructure defense transportation	050-National defense	Discretionary	Improve efficiency	New
Reduce excess capacity and increase cost-effectiveness of depot maintenance program	050-National defense	Discretionary	Improve efficiency	New
Use of innovative commercial practices to supply electronics items to maintenance and repair facilities	050-National defense	Discretionary	Improve efficiency	New
Consolidate the separate military exchange stores	050-National defense	Discretionary	Improve efficiency	New
Copayments for care in military hospitals	050-National defense	Discretionary	Redefine beneficiaries	Updated
Administering defense health care	050-National defense	Discretionary	Improve efficiency	Updated
Centralize Department of Energy's procurement of laboratory testing services	050-National defense	Discretionary	Improve efficiency	New
Improve Department of Energy's property management controls	050-National defense	Discretionary	Improve efficiency	New
Restructure Department of Energy's national laboratories	050-National defense	Discretionary	Reassess objectives	New
Negotiate more realistic environmental agreements	050-National defense	Discretionary	Reassess objectives	New
Improve Hanford site management	050-National defense	Discretionary	Improve efficiency	New
Burdensharing in the Republic of Korea	050-National defense	Discretionary	Improve efficiency	Updated
Food aid: reduce or eliminate funding for Public Law 480 Title I Program	150-International affairs	Discretionary/ direct	Reassess objectives	New
U.S. contribution to the International Fund for Agricultural Development	150-International affairs	Discretionary	Reassess objectives	New
Shortwave radio modernization program	150-International affairs	Discretionary	Reassess objectives	New
TV Marti	150-International affairs	Discretionary	Reassess objectives	Updated
Sell high-value property in Tokyo	150-International affairs	Discretionary	Reassess objectives	New
Space Station	250-General science, space, and technology	Discretionary	Reassess objectives	Updated
Recover clean coal technology funds	270-Energy	Discretionary	Reassess objectives	New

(continued)

Option title	Budget function	BEA category	Framework theme	Status
Delay procurement of nuclear waste containers	270-Energy	Discretionary	Reassess objectives	New
Privatize uranium enrichment program	270-Energy	Direct	Reassess objectives	New
Enhance profitability of Naval Petroleum Reserve-1	270-Energy	Discretionary	Improve efficiency	New
Consolidate Strategic Petroleum Reserve	270-Energy	Discretionary	Improve efficiency	New
Federal land policies	300-Natural resources and environment	Direct	Improve efficiency	Updated
Collaborative federal land management approach	300-Natural resources and environment	Discretionary	Improve efficiency	New
Federal timber sales	300-Natural resources and environment	Discretionary	Improve efficiency	Updated
Conservation reserve program contracts	300-Natural resources and environment	Direct	Improve efficiency	Updated
Charge fair market value for natural resources	300-Natural resources and environment	Direct	Improve efficiency	New
Communication site fees	300-Natural resources and environment	Direct	Improve efficiency	New
Recreation fees at federal sites	300-Natural resources and environment	Direct	Improve efficiency	Updated
Hardrock mining royalties	300-Natural resources and environment	Direct	Improve efficiency	Updated
Natural resources revenue sharing	300-Natural resources and environment	Discretionary	Improve efficiency	Updated
Changing how federal needs for helium are met	300-Natural resources and environment	Direct	Reassess objectives	New
Federal water policies	300-Natural resources and environment	Direct	Improve efficiency	Updated
Water transfers	300-Natural resources and environment	Direct	Improve efficiency	New
Pollution fees and taxes	300-Natural resources and environment	Direct	Improve efficiency	Updated
Hazardous waste cleanup cost recovery	300-Natural resources and environment	Discretionary	Improve efficiency	Updated
Nuclear waste disposal fees	300-Natural resources and environment	Direct	Improve efficiency	Updated
U.S. Department of Agriculture dairy price support program	350-Agriculture	Direct	Reassess objectives	Updated
Milk marketing orders	350-Agriculture	Direct	Reassess objectives	Updated
U.S. Department of Agriculture crop price supports	350-Agriculture	Direct	Redefine beneficiaries	Updated

(continued)

Option title	Budget function	BEA category	Framework theme	Status
Farm lands eligible for deficiency payments	350-Agriculture	Direct	Improve efficiency	Updated
Rice program	350-Agriculture	Direct	Reassess objectives	New
Peanut program	350-Agriculture	Direct	Reassess objectives	New
Reduce or eliminate funding for the Market Promotion Program	350-Agriculture	Direct	Redefine beneficiaries	New
Reduce funding for the Export Credit Guarantee Programs	350-Agriculture	Direct	Reassess objectives	New
National Oceanic Atmospheric Administration research fleet modernization	370-Commerce and housing credit	Discretionary	Improve efficiency	New
Centralize servicing for Rural Housing and Community Development Service's single-family housing loans	370-Commerce and housing credit	Discretionary	Improve efficiency	New
Opportunities to reduce the cost of the 2000 decennial census	370-Commerce and housing credit	Discretionary	Improve efficiency	Updated
Eliminate or transfer Interstate Commerce Commission functions	400-Transportation	Discretionary	Reassess objectives	New
Cargo preference laws: their costs and effects	400-Transportation	Discretionary	Reassess objectives	New
Increase federal fees paid by foreign-flagged cruise ships	400-Transportation	Direct	Redefine beneficiaries	New
Increase state share of state-supported intercity rail passenger service	400-Transportation	Discretionary	Redefine beneficiaries	New
Reduce or eliminate Amtrak subsidies	400-Transportation	Discretionary	Reassess objectives	New
Targeting military airport program funds within the national airport system	400-Transportation	Discretionary/ direct	Improve efficiency	New
Enhance Department of Transportation's oversight of its university research	400-Transportation	Discretionary	Improve efficiency	New
Reappraise rural development programs	450-Community and regional development	Discretionary	Improve efficiency	New
Employment and training programs	500-Education, training, employment, and social services	Discretionary/ direct	Improve efficiency	Updated
Overall strategy to address prescription drug fraud and Medicaid fraud	550-Health	Direct	Improve efficiency	New
Medicaid: States use illusory approaches to shift program costs to the federal government	550-Health	Direct	Reassess objectives	New
Medicaid formula: fairness could be improved	550-Health	Direct	Reassess objectives	New
Adopt automated drug utilization reviews	550-Health	Direct	Improve efficiency	New

(continued)

Option title	Budget function	BEA category	Framework theme	Status
Teaching hospitals' Medicare payments	570-Medicare	Direct	Improve efficiency	Updated
Medicare payment safeguards	570-Medicare	Discretionary/ direct	Improve efficiency	Updated
Medicare payments for high technology procedures	570-Medicare	Direct	Improve efficiency	Updated
Change the health maintenance organization rate-setting method for Medicare	570-Medicare	Discretionary/ direct	Improve efficiency	New
Fees for non-Aid to Families with Dependent Children child support enforcement services	600-Income security	Direct	Redefine beneficiaries	Updated
Automated child support enforcement systems	600-Income security	Direct	Improve efficiency	New
Funding for state automated welfare systems	600-Income security	Discretionary/ direct	Improve efficiency	New
Unified risk-based food safety system	600-Income security	Discretionary	Improve efficiency	New
Consolidation of U.S. Department of Agriculture food assistance programs	600-Income security	Direct	Improve efficiency	New
Social Security continuing disability reviews	650-Social security	Discretionary/ direct	Improve efficiency	Updated
Cost sharing for veterans' long-term care	700-Veterans benefits and services	Discretionary	Redefine beneficiaries	Updated
Construction of veterans' medical care facilities	700-Veterans benefits and services	Discretionary	Reassess objectives	Updated
Veterans' disability compensation for non-service connected diseases	700-Veterans benefits and services	Direct	Redefine beneficiaries	Updated
Justice's use of private counsel to collect civil debt	750-Administration of justice	Discretionary	Improve efficiency	New
General Services Administration supply depot system	800-General government	Direct	Improve efficiency	Updated
The 1-dollar coin	800-General government	Direct	Improve efficiency	Updated
Judiciary's long-range space planning system	800-General government	Direct	Improve efficiency	Updated
Premium payments to employees while on leave	Multiple	Discretionary	Improve efficiency	New
Global positioning system technology	Multiple	Discretionary	Improve efficiency	New
Reform or repeal the Davis-Bacon Act	Multiple	Discretionary	Reassess objectives	New
Better manage Department of Energy overtime costs	Multiple	Discretionary	Improve efficiency	New
Eliminate prefinancing funds for Department of Energy contractors	Multiple	Discretionary	Improve efficiency	New

(continued)

Option title	Budget function	BEA category	Framework theme	Status
Use uncosted obligations to offset future budget needs	Multiple	Discretionary	Improve efficiency	New
Federal agency credit management programs	Multiple	Discretionary/ direct	Improve efficiency	Updated
Formula-based grant programs	Multiple	Discretionary/ direct	Redefine beneficiaries	Updated
Tax treatment of health insurance premiums	Receipts	Direct	Redefine beneficiaries	Updated
Information reporting on forgiven debts	Receipts	Direct	Improve efficiency	Updated
Administration of the tax deduction for real estate taxes	Receipts	Direct	Improve efficiency	Updated
Corporate tax document matching	Receipts	Direct	Improve efficiency	Updated
Tax treatment of interest earned on life insurance policies and deferred annuities	Receipts	Direct	Reassess objectives	Updated
Federal agency reporting to the Internal Revenue Service	Receipts	Direct	Improve efficiency	Updated
Independent contractor tax compliance	Receipts	Direct	Improve efficiency	Updated
Deductibility of home equity loan interest	Receipts	Direct	Reassess objectives	Updated
Internal Revenue Service staff utilization	Receipts	Direct	Improve efficiency	Updated
Collecting gasoline excise taxes	Receipts	Direct	Improve efficiency	Updated
Computing excise tax bases	Receipts	Direct	Improve efficiency	Updated
Small-issue industrial development bonds and qualified mortgage bonds	Receipts	Direct	Reassess objectives	Updated
Improving compliance of sole proprietors	Receipts	Direct	Improve efficiency	New
Increase highway user fees on heavy trucks	Receipts	Direct	Redefine beneficiaries	New

050 National Defense

- Hunter joint tactical Unmanned Aerial Vehicle system
- Reduce Army inventories of spare and repair parts at divisions
- Improved material management can reduce shipyard costs
- Reduce Army's unfilled war reserve requirements by using other inventory items
- Defense infrastructure
- Potential reductions to the fiscal year 1996 defense operation and maintenance budget
- Alter readiness status of some ready reserve force ships
- Upgrades to Navy F-14 fighter aircraft may not be needed
- Options to acquire fewer attack submarines
- Continental air defense
- Carrier battle group expansions and upgrades
- Army's Comanche helicopter
- F-22 fighter
- C-17 aircraft
- MK-48 advanced capability torpedo propulsion system
- Reassess defense conversion spending
- Improve controls over payments to defense contractors
- Defense inventories
- Use prime vendors to supply high-volume clothing and textile items
- Restructure defense transportation
- Reduce excess capacity and increase cost-effectiveness of depot maintenance program
- Use of innovative commercial practices to supply electronics items to maintenance and repair facilities
- Consolidate the separate military exchange stores
- Copayments for care in military hospitals
- Administering defense health care
- Centralize Department of Energy's procurement of laboratory testing services
- Improve Department of Energy's property management controls
- Restructure Department of Energy's national laboratories
- Negotiate more realistic environmental agreements
- Improve Hanford site management
- Burdensharing in the Republic of Korea

Option: Hunter Joint Tactical Unmanned Aerial Vehicle System

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Reassess objectives

Beginning with first fielding in 1995, the Hunter Unmanned Aerial Vehicle (UAV) System is to provide Army Corps, Marine Divisions, and eventually Navy Amphibious Assault Ships with an intelligence gathering capability. Hunter is intended to replace the Pioneer UAV system that was used during Operation Desert Shield/Desert Storm, but which had frequent failures. Hunter is a $4 billion program with unit costs projected to be about $24 million per system.

Although Pioneer demonstrated the military utility of UAV systems in combat, it is not clear that Hunter will ever be capable of meeting the military requirements of the Army, Navy, and Marine Corps. GAO has reported that to date, the Hunter UAV system has shown itself to be logistically insupportable and tests have identified serious performance problems that adversely affect the system's effectiveness. Based on its performance to date, the system may prove unsuitable for use by operational forces and, contrary to DOD plans, could require costly contractor maintenance and support to keep it operating. Furthermore, after several crashes during testing, the Hunter UAV system was ordered grounded by DOD and has remained grounded.

DOD has recently restructured the Hunter program in an effort to address the system's problems. However, the restructured program would further delay and curtail critical testing while allowing for additional procurement of systems whose performance is so far unproven and possibly defective. Even so, in October 1994, the Commanding General of the Army's Operational Test and Evaluation Command expressed his belief that it is unlikely Hunter will be ready for Initial Operational Test and Evaluation by July 1995, as called for in the restructuring plan.

Given the problems with the Hunter system, and the fact that DOD is developing a number of other UAV systems including a close-range, or maneuver, system and several endurance systems, the Congress may wish to reconsider the need to purchase Hunter. Terminating the program could produce the following savings.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 Defense Plan					
Budget authority	230	220	200	180	170
Outlays	50	110	170	180	180

Source: Congressional Budget Office.

Related GAO Products

Unmanned Aerial Vehicles: No More Hunter Systems Should Be Bought Until Problems Are Fixed (GAO/NSIAD-95-52, March 1, 1995).

Unmanned Aerial Vehicles: Performance of Short-Range System Still in Question (GAO/NSIAD-94-65, December 15, 1993).

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Option: Reduce Army Inventories of Spare and Repair Parts at Divisions

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Operation and Maintenance, Army (21-2020)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

The five Army divisions are authorized to stock more than 26,000 items such as parts for wheel and track vehicles and other support equipment for their retail level inventories valued at more than $230 million.

Despite recent reductions in authorized inventories for these activities, the divisions continue to stock inventory that contributes little toward meeting the needs of their customers. GAO found that among the five divisions about $47 million was invested in inventory items that had two or fewer demands during the previous 12 months. Of this, $37 million had no requests. Additionally, $61 million was invested in inventory that accounted for only 11 percent of the items issued to the divisions' customers.

Stocking items at the retail level that receive few demands represents an inventory investment that could be avoided. The Army's own studies have shown similar results and have recommended that the infrequently demanded items be removed from the list of items that the divisions are authorized to stock. These studies have also recommended that the criteria for determining what items should be stocked need to be reevaluated. While DOD agrees that the criterion for determining what inventory items should be stocked at the divisions needs to be reevaluated, DOD did not fully agree that all infrequently requested items should be removed from stock.

Savings under this option could be achieved by reducing Army inventories of spare and repair parts. For example, if the Congress chooses to reduce future investment in these items by $108 million to reflect GAO's estimate, the following savings could result.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 Defense Plan					
Budget authority	108	0	0	0	0
Outlays	70	30	8	0	0

Source: Congressional Budget Office.

Related GAO Products

Army Inventory: Opportunities Exist for Additional Reductions to Retail Level Inventories (GAO/NSIAD-94-129, June 6, 1994).

Army Inventory: Divisions' Authorized Levels of Demand-Based Items Can Be Reduced (GAO/NSIAD-93-09, October 20, 1992).

Army Inventory: Fewer Items Should Be Stocked at the Division Level (GAO/NSIAD-91-218, July 24, 1991).

GAO Contact

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Option: Improved Material Management Can Reduce Shipyard Costs

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

The Navy's public shipyards support peacetime fleet maintenance needs and provide a base for responding to wartime requirements. Although the eventual size of the public shipyard industrial base is uncertain because of fleet downsizing, each shipyard should operate as efficiently as possible.

Despite recent improvements in shipyard material management, the shipyards' material requirements determination process still is not working as intended. Since shipyards order more material than needed to accomplish ship repairs, they have unused material after repairs are completed. GAO found that in fiscal years 1991 through 1993, the shipyards wrote off $88 million in losses for unused material, including $56 million in material sent to disposal. At the end of fiscal year 1993, the shipyards had $34.7 million of material on hand that had not been used on completed repairs and $11.8 million of material on order for repairs that were already completed.

GAO also found that shipyards maintain inventories of material that are not recorded on official records, issue more shop store material than needed for some ship repairs, and do not ensure compliance with policies to eliminate excess shop store inventories and protect material assets from loss. As a result, inventory records were not accurate and material funds were wasted. DOD agreed with GAO's findings and conclusions.

The Congress could reduce appropriations by $46.5 million for the Navy's shipyard repair material investment to account for excess inventories.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 Defense Plan					
Budget authority	50	0	0	0	0
Outlays	40	10	0	0	0

Source: Congressional Budget Office.

Related GAO Product

Navy Supply: Improved Material Management Can Reduce Shipyard Costs (GAO/NSIAD-94-181, July 27, 1994).

GAO Contact

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Option: Reduce Army's Unfilled War Reserve Requirements by Using Other Inventory Items

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Operation and Maintenance, Army (21-2020)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

Between 1992 and 1994, Department of Defense (DOD) policies restricted the services with regard to filling war reserve requirements with assets procured with funds other than those specifically appropriated for that purpose. In February 1994, the DOD Comptroller changed the policy and advised the Army that it could use inventory items not needed for peacetime operations for these purposes as long as the total amount of protected war reserve inventory did not exceed $2.9 billion—the cumulative amount the Congress had previously appropriated for buying war reserve inventory.

GAO analysis shows that the Army could fill $497 million of its unfilled war reserve requirements for spare and repair parts by transferring items not needed for peacetime operating purposes to the war reserve account. DOD agreed with GAO's analysis but is reluctant to reclassify items not needed for peacetime operating purposes to war reserves unless the Congress eliminates or modifies section 8007 of Public Law 103-139, the Department of Defense Appropriations Act for 1994. This particular section provides that except in the amounts equal to the amounts appropriated for war reserves, no obligations may be made to procure or increase the value of war reserve material inventory unless the Secretary of Defense had notified the Congress prior to such obligations.

For fiscal year 1995, the administration did not request funding for the Army's unfilled war reserve requirements nor does DOD have plans to fund the requirements in the 1995 Defense Plan. If a future administration budget proposal were made for unfilled war reserve requirements, the Congress may wish to encourage DOD to shift peacetime inventory by using funding already in the baseline (operation and maintenance, Army account) to fill the new requirements.

Related GAO Product

Army Inventory: Unfilled War Reserve Requirements Could Be Met With Items From Other Inventory (GAO/NSIAD-94-207, August 25, 1994).

GAO Contact

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Option: Defense Infrastructure

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

As DOD realigns and downsizes, GAO has reported that it needs to ensure that the remaining infrastructure is downsized commensurate with the remaining forces. As pointed out in DOD's self-initiated Bottom Up Review, there are numerous opportunities to reduce the defense infrastructure without affecting readiness. In fact, reducing the infrastructure could enhance readiness in that moneys now being spent to maintain unneeded infrastructure could be applied to readiness enhancement measures. Significant budget reductions could be achieved by streamlining the command structure of the remaining forces; sharing medical facilities and services; consolidating depots and shipyards; reforming acquisition processes; consolidating and eliminating research, development, and training facilities; using simulators for training and exercises; and reducing dependence on government-owned housing.

Savings for this option cannot be estimated until a comprehensive consolidation and downsizing plan is specified. According to the Bottom Up Review, infrastructure areas and processes accounted for $160 billion of the $254 billion fiscal year 1994 Defense budget.

Related GAO Products

1994 DOD Budget: Potential Reductions to the Operation and Maintenance Budget (GAO/NSIAD-93-295BR, September 16, 1993).

Depot Maintenance: Issues in Management and Restructuring to Support a Downsized Military (GAO/T-NSIAD-93-13, May 6, 1993).

Depot Maintenance: Issues in Allocating Workload Between the Public and Private Sectors (GAO-T-NSIAD-94-161, April 12, 1994).

Military Bases: Analysis of DOD's Recommendations and Selection Process for Closures and Realignments (GAO/NSIAD-93-173, April 15, 1993).

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Option: Potential Reductions to the Fiscal Year 1996 Defense Operation and Maintenance Budget

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

The military services' operation and maintenance (O&M) accounts are used to fund a wide range of military activities from training and purchasing of spare and repair parts to civilian personnel.

GAO analysis of selected O&M requests for fiscal year 1995 showed that the budget for that year could have been reduced by $4.5 billion without damaging defense operations and capabilities. The largest potential reductions, each for over $500 million, were associated with better management of spare and repair parts inventories, funds requested for ground operating tempo that are not used for training purposes, overstated civilian personnel requirements, and excessive unobligated balances from prior years' appropriations. Another potential reduction of about $470 million was associated with improved maintenance practices that the services could adopt.

The Congress may wish to consider the potential opportunity for savings when formulating fiscal year 1996 appropriations for operation and maintenance accounts.

Based on GAO's analysis regarding potential savings in the fiscal year 1995 O&M budget, the Congress may wish to consider reductions of a similar magnitude, $4.5 billion, when formulating fiscal year 1996 appropriations for O&M accounts. It is important for the Congress to be aware that savings for this option include savings for other options involving the individual services' O&M accounts since the problems GAO identified persist. CBO noted that budget authority savings could be larger due to savings from recurring costs. However, CBO is unable to identify the particular years in which these savings would be achieved or the amounts.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 Defense Plan					
Budget authority	4,500	0	0	0	0
Outlays	3,400	850	150	50	20

Source: Congressional Budget Office.

Related GAO Product

1995 Budget: Potential Reductions to the Operation and Maintenance Programs (GAO/NSIAD-94-246BR, September 6, 1994).

GAO Contact

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Option: Alter Readiness Status of Some Ready Reserve Force Ships

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	National Defense Sealift Fund (17-4557)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Reassess objectives

Ready Reserve Force ships are used by the military services to transport cargo to where it is needed. A 1990 DOD Mobility Requirements Study recommended maintaining 63 ships at a high readiness level (such as able to be activated in 4 or 5 days) with operation and maintenance costing hundreds of millions of dollars. Consistent with this study, the Army has a long-term plan to increase its capability to reach seaports more quickly.

However, GAO has expressed a concern that the Army's current ability to move cargo from key installations to seaports is constrained by deteriorated rail facilities. GAO found that although the Army plans to increase its capability to reach seaports more quickly, most transportation infrastructure renovation and repair projects will not be completed as anticipated in DOD's Mobility Requirements Study. Further, GAO found that DOD's analysis did not support maintaining 63 ships in a high state of readiness. For example, the study's model assumed only 14 ships would need to be ready to load cargo by the 5th day.

Because the various components of the U.S. mobility forces must work together to synchronize the delivery of equipment and supplies, GAO believes that it is possible to keep some Ready Reserve Force ships at a lower readiness level. Under similar logic, the Maritime Administration's fiscal year 1994 Ready Reserve Force budget request for maintenance and operations was $136 million, or approximately $221 million less than the $357 million identified in the Mobility Study. The administration concluded that reduced funding in fiscal year 1994 would not result in a great degradation of readiness. Appropriations could be reduced by keeping more Ready Reserve Force Ships in a lower readiness level than planned until transportation renovations and/or repairs are complete. For example, based on GAO's audit work, if the Congress chose this alternative and 20 ships were kept in a lower readiness status, the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 Defense Plan					
Budget authority	20	20	20	20	20
Outlays	15	18	20	20	20

Source: Congressional Budget Office.

Related GAO Products

Ready Reserve Force: Ship Readiness Has Improved, but Other Concerns Remain (GAO/NSIAD-95-24, November 8, 1994).

Strategic Mobility: Serious Problems Remain in U.S. Deployment Capabilities (GAO/T-NSIAD-94-165, April 26, 1994).

DOD's Mobility Requirements: Alternative Assumptions Could Affect Recommended Acquisition Plan (GAO/NSIAD-93-103, April 22, 1993).

GAO Contact

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Option: Upgrades to Navy F-14 Fighter Aircraft May Not Be Needed

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Aircraft Procurement, Navy (17-1506)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Reassess objectives

Until recently, the Navy planned to spend over $2.5 billion from fiscal years 1994-2003 on structural, survivability, and capability upgrades for many F-14 fighter aircraft. About $1.6 billion was planned for a very limited ground attack upgrade to 210 aircraft, and another $970 million was planned for structural and survivability improvements to 198 older F-14A and B model aircraft (157 of which would then receive the ground attack upgrade along with 53 F-14D models).

A GAO analysis concluded that the first upgrade did not provide enough additional capability and would not be fielded soon enough to warrant the expenditure of $1.6 billion and the program was terminated when the Congress did not appropriate these funds. Fiscal year 1995 funds were appropriated for F-14A/B structural and survivability improvements, and that program is likely to continue for several years. Navy officials continue to believe a ground attack upgrade is necessary. A final decision on the extent of the upgrade depends on the results of a cost-effectiveness and operational assessment and an acquisition milestone decision scheduled for the first quarter of fiscal year 1995.

We question the need for F-14 structural/survivability upgrades. The Navy has stated that F-14s are using up their service life and that structural upgrades are needed to keep F-14s operating until they are retired and replaced by F/A-18E/F aircraft beginning in fiscal year 2000. The Navy plans to retire and store about 150 F-14s over the next 2 to 3 years as it reduces its force structure. In lieu of structural modifications, some of these aircraft with service life remaining, could possibly be brought back out of storage in future years, and operated until F-14s are gradually retired and replaced by F/A-18E/F aircraft. If the Congress chose to cancel the F-14 structural/survivability modification program, the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 Defense Plan					
Budget authority	130	120	120	110	110
Outlays	20	60	100	110	110

Source: Congressional Budget Office.

Related GAO Product

Naval Aviation: F-14 Upgrades Are Not Adequately Justified (GAO/NSIAD-95-12, October 19, 1994).

GAO Contact

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Option: Options to Acquire Fewer Attack Submarines

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Shipbuilding and Conversion, Navy (17-1611)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Reassess objectives

Nuclear-powered attack submarines (SSN) are the Navy's prime antisubmarine warfare asset. Today, faced with a changed world threat, a new defense posture, and constrained defense budgets, the Navy is reducing the size of its SSN fleet. The DOD's Bottom-Up Review determined that the Navy needed to maintain a force of 45 to 55 SSNs after fiscal year 1999 to meet the requirements of the defense strategy, including both regional conflicts and peacetime presence operations.

One option the Congress may consider is to cancel plans to buy the third Seawolf submarine and defer acquisition of a new generation submarine until 2003, while continuing some research and development efforts through 2000. The estimated savings reflected in the table include the costs associated with consolidating submarine production at one of the two facilities and maintaining that facility over the next 5 years. However, due to the delayed acquisition of the new generation submarine, beginning in 2003, the Navy would have to increase its annual shipbuilding budgets more than currently planned.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 Defense Plan					
Budget authority	2,130	920	3,410	670	1,470
Outlays	–20	750	1,320	1,550	1,210

Source: Congressional Budget Office.

Note: Higher outlays from increased shutdown and maintenance costs, as well as research and development costs, completely offset outlay savings in 1996.

Related GAO Product

Attack Submarines: Alternatives for a More Affordable SSN Force Structure (GAO/NSIAD-95-16, October 13, 1994).

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Option: Continental Air Defense

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (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) Military Personnel, Air Force (57-3500) Procurement-funded Replenishment Spares Replacement Support Equipment and Modifications
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

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. As of May 1994, the force consisted of 150 primary aircraft comprised of Air National Guard F-15A/B and F-16A/B aircraft in 10 dedicated units, as well as 2 F-15 dual-tasked general-purpose units which stand alert for NORAD. At that time the Air Force budgeted about $370 million annually to operate and support the continental air defense force.

The former Soviet Union no longer poses 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 the United States no longer needed a large, dedicated air defense force and that the dedicated 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 territorial airspace, including activities such as assisting aircraft in distress or intercepting aircraft as part of anti-drug 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 could acquire the necessary skills used by air defense and air sovereignty pilots.

Based on our audit work, GAO has concluded that significant savings could be achieved by dual-tasking the active, reserve, and training forces. Savings could also be achieved if the dedicated continental air defense force and mission were eliminated. If the Congress chose to eliminate the dedicated force the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 Defense Plan					
Budget authority	210	430	450	470	480
Outlays	160	370	420	450	470

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

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Option: Carrier Battle Group Expansions and Upgrades

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Operation and Maintenance, Navy (17-1804) Military Personnel, Navy (17-1453) Procurement-funded Replenishment Spares Replacement Support Equipment and Modifications
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

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 $1.7 billion (in fiscal year 1995 dollars) and will continue to increase. The Navy is embarking on several costly carrier-related programs—procuring another carrier, refueling existing carriers, and replacing/upgrading combat aircraft.

GAO's analysis indicates that there are opportunities for using 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 crises response. If the Congress chose to retire one aircraft carrier and one active air wing in 1996, the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 Defense Plan					
Budget authority	290	600	630	650	670
Outlays	210	480	560	610	640

Source: Congressional Budget Office.

Related GAO Product

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

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Option: Army's Comanche Helicopter

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

When fielded in 2003, the Comanche helicopter is to replace the Vietnam-era scout and attack helicopters that the Army considers incapable of meeting existing or future requirements. The Comanche's overall program cost has grown to approximately $45 billion, with an estimated program unit cost of about $35 million. Anticipated cost increases and other unresolved technical risks indicate that future cost growth is likely. Moreover, the Army's Comanche helicopter program currently faces a $540 million funding shortfall for fiscal years 1995-2004. In order to cope with anticipated funding shortfalls, the Army is proposing to streamline the program. This entails merging the demonstration, validation, engineering, and manufacturing development phases into one developmental phase. In December 1994, the Secretary of Defense decided to restructure the Comanche program as a prototype/technology base program, resulting in a program cost reduction from $4.2 billion to about $2 billion for fiscal years 1996 through 2001.

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 modify many of those that will remain to increase combat capabilities. For example, the Army is arming the Kiowa and plans to improve the basic model Apaches, including adding Longbow modifications to 227 Apaches. These actions, collectively, tend to blur the distinction in roles among the Army's helicopter fleet.

Given 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, and declining defense budgets, the Congress may wish to rethink the need to purchase the Comanche. Terminating the program would produce the following savings.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 Defense Plan					
Budget authority	370	500	520	520	500
Outlays	210	410	490	500	500

Source: Congressional Budget Office.

Note: The Comanche Helicopter program has been restructured to a prototype program only in the administration's 1996 budget request. Therefore, under the President's 1996 Defense Plan, savings from terminating the program would be considerably lower than the estimate above.

Related GAO Products

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

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

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Option: F-22 Fighter

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

In recent years, GAO has issued numerous reports on the Air Force's F-22 program leading to the following findings and conclusions.

The Air Force's F-22 program was initiated in 1981 to meet the evolving threat projected for the mid-1990s. Since the F-22 program entered full-scale development in 1991, the severity of the projected military threat in terms of quantities and capabilities had declined. Instead of confronting thousands of modern Soviet fighters, U.S. air forces are now expected to confront potential adversary air forces that include few fighters that have the capability to challenge the F-15—the U.S. front line fighter. GAO's analysis shows that the F-15 exceeds the most advanced fighter threat system expected to exist for many years. Further, our analysis indicated that the current inventory of F-15s can be economically maintained in a structurally sound condition until 2015 or later.

DOD is currently planning to procure significant units before completing operational tests and evaluations, thereby increasing the cost, schedule, and performance risks within the system. Initial operational tests and evaluations that determine the system's operational utility and appropriateness for production are not scheduled to be completed until after the Air Force will have committed to procure 80 aircraft involving an investment of $12.4 billion. Air Force plans call for procurement of 4 aircraft a year, increasing to 36 a year (a 900 percent increase) before initial operational tests and their evaluation are scheduled to be completed. Many aircraft systems entering production before starting operational testing have required major modification later which is often costly.

Using DOD guidelines, F-22 program concurrency is high because the F-22 program is scheduled to proceed into low rate initial production well before any operational testing starts. Furthermore, the F-22 program contemplates a higher commitment as a percent of total production prior to completion of initial operational testing than most modern fighter programs.

Because the need for the F-22 is not urgent and the concurrency between development and production is high, the Congress could choose to restrict production of F-22s to six aircraft in 1999 and eight aircraft in 2000 until initial operational tests and evaluations are completed in February 2002. One Air Force official stated that one set of production tooling can produce six to eight production aircraft a year. If the Congress decides to restrict production in this way, the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 Defense Plan					
Budget authority	0	0	0	740	1,740
Outlays	0	0	0	50	290

Source: Congressional Budget Office.

Related GAO Products

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

Tactical Aircraft: F-15 Replacement is Premature as Currently Planned (GAO/NSIAD-94-118, March 25, 1994).

Tactical Aircraft: Planned F-15 Replacement Is Premature (GAO/C-NSIAD-94-11, December 8, 1993).

F-22 Fighter: Concurrency in Development and Production (GAO/NSIAD-95-59, report in progress).

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Option: C-17 Aircraft

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

Many GAO reports and testimonies issued over the past decade have produced the following findings and conclusions regarding the Air Force C-17.

The C-17 has been a troubled program almost since its inception and has fallen far short of original cost, schedule, and performance objectives. As a result of the program's problems, the Department of Defense (DOD) sponsored a cost and operational effectiveness analysis to explore alternatives to the C-17 for meeting planned airlift capacity requirements, including acquiring additional commercial wide-body derivative aircraft. Although the analysis shows that there are cost effective wide-body alternatives, DOD has not made a final decision on substituting commercial wide-body aircraft for the C-17.

The Congress may wish to purchase commercial wide-body aircraft over the period 1996 to 2000 instead of purchasing more than 40 C-17 aircraft. Estimated funding identified for strategic airlift purposes in the 1995 Defense Plan could be used.[2] The following savings could be achieved if 34 commercial wide-body aircraft were purchased instead of buying additional C-17s.

[2]The 1995 plan for strategic airlift, according to DOD, could buy more C-17s or non-development airlift aircraft (NDAA) or a combination of NDAA and C-17s. The specifics of how DOD would use this money are not available now and may not be available until the fall of 1995 when DOD is scheduled to decide whether or not to purchase more C-17s. Moreover, the 1995 plan for strategic airlift did not include any money in the year 2000. CBO assumed that the administration would need roughly $4.3 billion in 2000 (about the same amount in 1999) to continue procurement.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 Defense Plan					
Budget authority	210	1,660	1,480	2,370	2,380
Outlays	10	150	560	1,090	1,570

Source: Congressional Budget Office.

Related GAO Products

Military Airlift: Comparison of C-5 and C-17 Airfield Availability (GAO/NSIAD-94-225, July 11, 1994).

Military Airlift: The C-17 Proposed Settlement and Program Update (GAO/T-NSIAD-94-172, April 28, 1994).

Military Airlift: The C-17 Program Update and Proposed Settlement (GAO/T-NSIAD-94-166, April 19, 1994).

Military Airlift: C-17 Settlement Is Not a Good Deal (GAO/NSIAD-94-141, April 15, 1994).

Military Airlift: The C-17 Program Status and Proposed Settlement (GAO/T-NSIAD-94-115, February 10, 1994).

Military Airlift: Status of the C-17 Development Program (GAO/T-NSIAD-93-6, March 10, 1993) and (GAO/T-NSIAD-93-8, March 18, 1993).

Defense Industry: Status of the C-17 Program and Related Issues Affecting the McDonnell Douglas Corporation (GAO/T-NSIAD-92-4, November 14, 1992).

Military Aircraft: C-17 Wing Flap Requires Additional Testing (GAO/NSIAD-92-160, July 8, 1992).

Military Airlift: Selected Events in the Development of the C-17 (GAO/NSIAD-92-181FS, May 4, 1992).

Military Airlift: Cost and Complexity of the C-17 Aircraft Research and Development Program (GAO/NSIAD-91-5, March 19, 1991).

Status of the Air Force's C-17 Aircraft Program (GAO/T-NSIAD-90-48, June 19, 1990).

Military Airlift: C-17 Faces Schedule, Cost, and Performance Challenges (GAO/NSIAD-89-195, August 18, 1989).

GAO Contact

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Option: MK-48 Advanced Capability Torpedo Propulsion System

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Weapons Procurement, Navy (17-1507)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Reassess objectives

In 1986, the Navy established a requirement to upgrade the propulsion system on its MK-48 Advanced Capability (ADCAP) torpedo. The upgrade was intended to reduce noise levels when the torpedo was fired from the SSN-21 Seawolf submarine. In January 1992, the Navy stated that the Seawolf's requirements could be met by the current ADCAP, without the upgrade. The Navy now plans to combine the Torpedo Propulsion Unit (TPU) with a new guidance and control unit. Together these improvements, referred to as the ADCAP Modification Program, are estimated to cost about $711 million. According to a Navy official, the Navy plans to upgrade about 1,386 ADCAP torpedoes starting about January 1997.

Although operational test and evaluation of the ADCAP Modification Program will not be complete until late 1995, the Navy plans to seek approval for low-rate initial production in February 1995. In 1992, GAO questioned the need for the TPU and recommended that the TPU be terminated. Although the Navy now justifies the TPU in part on the basis of improving ADCAP shallow water performance, latest Navy testing has shown that the current ADCAP torpedo can effectively operate in shallow water. If the Congress chose to terminate the upgrade program, the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 Defense Plan					
Budget authority	20	20	20	20	0
Outlays	10	10	20	20	10

Source: Congressional Budget Office.

Related GAO Product

Navy Torpedo Program: MK-48 ADCAP Propulsion System Upgrade Not Needed (GAO/NSIAD-92-191, September 10, 1992).

GAO Contact

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Option: Reassess Defense Conversion Spending

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Reassess objectives

Estimates of DOD's portion of the total federal funds to be spent on defense conversion for fiscal years 1993 through 1997 are increasing. However, we found no evidence that (1) the level of spending is appropriate in light of other government programs that support similar purposes and (2) the private economy has not already responded to the need for which these funds were authorized and appropriated. Consequently, the Congress may wish to slow DOD's spending in this area.

The President's defense conversion initiative, announced on March 11, 1993, totaled $19.6 billion over 5 years; DOD's portion was 42 percent. The administration's February 1994 estimate of the cost of the initiative was $21.6 billion; DOD's portion has increased to 59 percent. A study for DOD's 1993 Defense Conversion Commission identified 116 other federal or state programs, not classified as defense conversion, that could help ease the impact of defense downsizing. These programs cost about $24 billion in fiscal year 1993. Other related programs include federal activities to develop advanced industrial technology with costs of about $10 billion in fiscal year 1994.

The United States is now in the tenth year of defense downsizing and many firms, individuals, and communities who were adversely affected may have already responded. GAO reports show that overall, savings from slowing defense conversion spending would depend on the programs and activities affected. As an illustrative example, the Congressional Budget Office estimates that if the Technology Reinvestment Program, one component of defense conversion spending, was eliminated beginning in fiscal year 1996, the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 Defense Plan					
Budget authority	650	680	700	730	750
Outlays	280	560	650	690	720

Source: Congressional Budget Office.

Related GAO Products

Defense Conversion: Capital Conditions Have Improved for Small-and Medium-Sized Firms (GAO/NSIAD-94-224, July 21, 1994).

Defense Conversion: Status of Funding and Spending (GAO/NSIAD-94-218BR, June 30, 1994).

Defense Conversion: Slow Start Limits Spending (GAO/NSIAD-94-72, January 25, 1994).

GAO Contact

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Option: Improve Controls Over Payments to Defense Contractors

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

Weak financial controls have resulted in millions of dollars of incorrect payments being made by the Defense Finance and Accounting Service (DFAS), the principal contract-paying activity of the Department of Defense. During a 6-month period, DFAS processed $751 million in checks from defense contractors. GAO researched checks totaling $392 million and found that $305 million, 78 percent, represented overpayments by the government. Overpayments resulted from DFAS making duplicate payments and paying invoices without considering previous progress payments.

Contractors, rather than DFAS' controls, detected most overpayments. GAO work shows that this increases the risk that losses will result from undetected or unreturned payments. Overpayments cost the government thousands of dollars of interest each day; underpayments are also costly as Defense is required to pay interest on valid invoices that are paid late.

Defense is working to strengthen its existing internal control procedures to prevent overpayments and detect them more rapidly when they do occur. Initiatives are also underway to reform and streamline the complex regulatory policies and procedures that affect contract payments. GAO believes, however, that the large dollar amounts at risk warrant DOD's viewing the need for corrective actions with an increased sense of urgency.

CBO agrees that stronger internal controls can reduce costs from over- and underpayments to contractors. However, savings depend on the specific changes in control systems that would be required and their likely effects.

Related GAO Products

DOD Procurement: Overpayments and Underpayments at Selected Contractors Show Major Problem (GAO/NSIAD-94-245, August 5, 1994).

DOD Procurement: Millions in Overpayments Returned by DOD Contractors (GAO/NSIAD-94-106, March 14, 1994).

GAO Contact

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Option: Defense Inventories

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

Over 100 GAO reports have pointed out DOD inventory management problems and have shown that DOD has continually bought and stored items that greatly exceeded its operational and war reserve needs. Systemic problems in determining requirements and inadequate financial accountability and control have contributed to poor inventory management practices. Further, DOD's culture has traditionally emphasized overbuying and placed little value on economy and efficiency, causing unneeded items to pile up in warehouses. Force reductions and base closures will only compound the situation and result in additional unneeded inventory.

DOD has been slow to implement private sector practices that could reduce inventory costs. In this regard, the Defense Logistics Agency has recently begun conducting pilot programs to demonstrate the applicability of commercial practices and to tailor changes required in each of its facilities so that the successful results of the programs could be applied in supply and distribution.

Systemic reforms—such as improving the way inventory requirements are determined, using commercial inventory management practices, and changing financial management policies and practices—are needed to achieve further reductions in DOD's budget requirements. GAO estimates that, as of September 1993, only about half of DOD's $77.5 billion in inventory was needed to be on hand to support current operations and war reserves. GAO presents several specific options relating to DOD inventories. See options "Use Prime Vendors to Supply High-Volume Clothing and Textile Items," "Use of Innovative Commercial Practices to Supply Electronics Items," "Reduce Army Inventories of Spare and Repair Parts at Divisions," and "Improved Material Management Can Reduce Shipyard Costs."

Related GAO Products

Commercial Practices: DOD Could Reduce Electronics Inventories by Using Private Sector Techniques (GAO/NSIAD-94-110, June 29, 1994).

Commercial Practices: Leading-Edge Practices Can Help DOD Better Manage Clothing and Textile Stocks (GAO/NSIAD-94-64, April 13, 1994).

Commercial Practices: DOD Could Save Millions by Reducing Maintenance and Repair Inventories (GAO/NSIAD-93-155, June 7, 1993).

DOD Food Inventory: Using Private Sector Practices Can Reduce Costs and Eliminate Problems (GAO/NSIAD-93-110, June 4, 1993).

Defense Transportation: Commercial Practices Offer Improvement Opportunities (GAO/NSIAD-94-26, November 26, 1993).

Defense Inventory: Top Management Attention Is Crucial (GAO/NSIAD-90-145, March 26, 1990).

GAO Contact

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Option: Use Prime Vendors to Supply High-Volume Clothing and Textile Items

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

The Department of Defense (DOD) spends over a billion dollars for clothing and textile items sold to military service customers, primarily the services' 14 recruit induction centers and over 300 military exchange stores.

GAO has reported that while private sector companies are cutting costs by minimizing inventories, DOD continues to store redundant levels of clothing and textile inventories throughout its wholesale and retail system. Much of this inventory is aged; for about 26 percent of the items, DOD had 10 years of supply on hand. To maintain these stocks, DOD employs a large operations infrastructure and thus incurs unnecessary inventory storage and handling costs.

Many private sector firms and some federal agencies with uniformed employees are relying on prime vendors to manage their clothing inventories. Prime vendors provide timely and direct delivery between customers and suppliers, and order additional stock from manufacturers on short notice, with quick turnaround, to minimize inventory holding costs and improve customer service. DOD plans to implement a prime vendor program at recruit induction centers beginning in fiscal year 1995. GAO believes that substantial opportunities exist to reduce DOD annual expenditures on clothing and textile items by adopting best commercial practices on a wide-scale basis, CBO cannot develop a 5-year savings estimate for this option at this time.

Related GAO Product

Commercial Practices: Leading-Edge Practices Can Help DOD Better Manage Clothing and Textile Stocks (GAO/NSIAD-94-64, April 13, 1994).

GAO Contact

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Option: Restructure Defense Transportation

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

Numerous studies by DOD, presidential commissions, and others have reported that the structure of the defense transportation system is fragmented and inefficient. Traffic management processes were developed independently for each mode of transportation, and each supported with independently developed automated systems. GAO believes that DOD needs to better integrate traffic management and to provide more effective support, at lower cost, both in peace and in war.

In 1992, DOD designated the U.S. Transportation Command (USTRANSCOM) the single DOD manager for defense transportation in peace and war. However, GAO work shows that the extensive field organization and multiple component command responsibilities continue to exist. USTRANSCOM and the services also continue to support multiple independent automated transportation systems. Savings could be achieved by restructuring the traffic management infrastructure, including the implementation of a 1988 proposal by a DOD task force to consolidate the individual headquarters commands. While CBO agrees that savings would result from implementation of this option, it cannot develop a 5-year savings estimate until numerous variables, such as the extent of consolidation and the impact on command and support structures, are determined.

Related GAO Products

Defense Transportation: Commercial Practices Offer Improvement Opportunities (NSIAD-94-26, November 26, 1993).

Defense Transportation: Ineffective Oversight Contributes to Freight Losses (NSIAD-92-96, June 18, 1992).

Defense Reorganization: DOD's Efforts to Streamline the Transportation Command (NSIAD-91-36BR, October 26, 1990).

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Option: Reduce Excess Capacity and Increase Cost-Effectiveness of Depot Maintenance Program

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

DOD's annual $15 billion depot maintenance program provides for major overhaul of parts, rebuilding parts and end items, modifying systems and equipment by applying new or improved components, and manufacturing parts unavailable from the private sector. This work is accomplished by thousands of commercial contractors as well as by DOD employees in large industrial depots maintained by the military departments. Factors such as threat changes, new war-fighting plans, force structure reductions, and increased reliability and maintainability of many military systems have significantly reduced depot maintenance requirements over the past few years. The department has been struggling to implement initiatives to (1) identify what maintenance should be conducted at depots and what should be conducted in operational units, (2) cost-effectively allocate depot maintenance workload between the public and private sectors, (3) downsize the military depot maintenance system[1] to reduce excess capacity, and (4) implement a cost-effective approach for managing DOD's depot management programs, systems, and facilities. Changes in several areas could improve the cost-effectiveness of the DOD depot maintenance program.

First, the current DOD depot management structure is not conducive to making interservicing decisions that are essential to developing a more efficient and effective depot maintenance system. Several prior GAO studies have discussed this problem in detail. By consolidating the management of the depot maintenance program in a single DOD agency or command, the department would produce the greatest opportunity for efficiency and matching depot capacity with future requirements.

[1]With full implementation of currently approved base realignment and closure (BRAC) decisions, the number of military depots will be reduced to 24, and more closures are expected to be announced as a part of the 1995 BRAC process.

Second, legislation that prohibits the military departments from contracting out more than 40 percent of their depot maintenance work to the private sector may preclude the most cost-effective allocation of workload. Furthermore, since statistics gathered regarding this workload allocation are inconsistent among the services and between the public and private sector, DOD's analysis of the so-called 60-40 split between the public and private sector is not meaningful. The Congress may wish to consider legislation eliminating the 60-40 requirement and providing that DOD assign depot work to the public or private sector based on merit-based criteria that includes industrial base, readiness, and core requirements as well as cost.

CBO cannot develop a 5-year savings estimate at this time. The magnitude of savings would depend on the resulting structure and size of the depot maintenance system and workload split between the private and public sectors.

Related GAO Products

Navy Maintenance: Assessment of the Public and Private Shipyard Competition Program (GAO/NSIAD-94-184, May 25, 1994).

Correspondence to the Chairman, Subcommittee on Readiness, Committee on Armed Services, July 28, 1994 (follow-up to April 12, 1994, Depot Maintenance Testimony).

Depot Maintenance: Issues in Allocating Workload Between the Public and Private Sectors (GAO/T-NSIAD-94-161, April 12, 1994).

Depot Maintenance: Issues in Management and Restructuring to Support a Downsized Military (GAO/T-NSIAD-93-13, May 6, 1993).

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Option: Use of Innovative Commercial Practices to Supply Electronics Items to Maintenance and Repair Facilities

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

The Defense Logistics Agency (DLA) manages over 1 million electronics items, such as resistors, fuses, and switches. It stores this inventory, valued at over $2 billion, at 28 distribution depots and other storage locations. This large level of inventory reflects DLA's practice of buying and storing electronics supplies to ensure they are available to customers—sometimes several years in advance of when the supplies are actually needed. The turnover of DLA's electronics inventory is slow. In fiscal year 1993, the wholesale inventory of such items would turn over once every 4 years. In comparison, private sector suppliers often turn their stock over 4 times a year.

Many private sector companies have adopted modern inventory management practices, including long-term relationships with suppliers, direct delivery programs, and direct communication channels between suppliers and end users. With these practices, companies do not store supplies at intermediate handling and storage locations, as DOD does. Instead, they arrange for suppliers to deliver inventory items directly to the end users facility close to the time when the items are needed. The result is a reduction in inventories and related holding costs as well as improved customer service.

DLA has initiated several programs to adopt commercial practices for electronics items, but overall progress is slow and projected results are limited. However, DLA recently initiated a study to examine the feasibility of using "supplier parks" at military industrial facilities—a successful technique currently in use by progressive private firms. Budgetary savings would result if DLA managed electronics inventories in this manner.

GAO believes that substantial opportunities exist to reduce DOD expenditures on electronics items by adopting best commercial practices on a wide-scale basis. CBO cannot develop a 5-year savings estimate for this option at this time.

Related GAO Product

Commercial Practices: DOD Could Reduce Electronics Inventories by Using Private Sector Techniques (GAO/NSIAD-94-110, June 29, 1994).

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Option: Consolidate the Separate Military Exchange Stores

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

GAO reviewed the "morale, welfare, and recreation (MWR)" program—a $12 billion dollar enterprise that provides service members, their dependents, and eligible civilians with an affordable source of goods and services like those available to civilians—and found that revenue generated by the MWR activities is likely to decrease in the 1990's because of the downsizing of forces and increasing private sector competition. Appropriated funds—which now constitute 10 percent of MWR funding—are also expected to decline as overall budgets decline.

Exchange stores are the largest producer of MWR revenue. DOD's decentralized approach to managing the MWR program will not work well in this environment. Since 1968, studies by GAO, DOD, and others have recommended the consolidation of exchanges into a single entity. Each study predicted financial benefits could be achieved through consolidation. While the Army and Air Force exchanges have been consolidated, the Navy and Marine Corps retain independent exchanges. Further consolidations could achieve additional savings. CBO cannot develop a 5-year savings estimate until numerous variables, such as the extent of consolidation, are determined.

Related GAO Product

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

GAO Contact

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Option: Copayments for Care in Military Hospitals

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

Numerous GAO reports and testimonies have documented the problems of coordinated care in the military health service system. In particular, we have reported that currently 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) utilization and, therefore, greater costs.

DOD has suggested a new set of cost-sharing requirements for care provided by civilian network providers under its health care reform proposal. However, the proposal maintains free care to beneficiaries in military facilities, thereby continuing the inequity and overutilization problems.

The Congress may wish to establish beneficiary cost-sharing requirements for care received in military hospitals similar to the DOD health care reform proposal for care that beneficiaries will receive from civilian facilities.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	210	200	200	200	200
Outlays	180	190	190	200	200
Savings from the 1995 funding level adjusted for inflation					
Budget authority	210	200	200	200	200
Outlays	180	190	200	200	200

Source: Congressional Budget Office.

Related GAO Products

Defense Health Care: Lessons Learned From DOD's Managed Health Care Initiatives (GAO/T-HRD-93-21, May 10, 1993).

Defense Health Care: Obstacles in Implementing Coordinated Care (GAO/T-HRD-92-24, April 7, 1992).

Defense Health Care: Implementing Coordinated Care—A Status Report (GAO/HRD-92-10, October 3, 1991).

The Military Health Services System—Prospects for the Future (GAO/T-HRD-91-11, March 14, 1991).

GAO Contact

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Option: Administering Defense Health Care

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Account	Defense Health Program (97-0130)
Spending type	Discretionary
Budget subfunction	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 systems perform many of the same administrative, management, and operational functions.

Since 1949 over 22 studies have reviewed whether a central entity should be created within 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.

Related GAO Products

Defense Health Care: Lessons Learned From DOD's Managed Health Care Initiatives (GAO/T-HRD-93-21, May 10, 1993).

Defense Health Care: Obstacles in Implementing Coordinated Care (GAO/T-HRD-92-24, April 7, 1992).

Defense Health Care: Implementing Coordinated Care—A Status Report (GAO/HRD-92-10, October 3, 1991).

The Military Health Services System—Prospects for the Future (GAO/T-HRD-91-11, March 14, 1991).

GAO Contact

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Option: Centralize Department of Energy's Procurement of Laboratory Testing Services

Authorizing committees	Energy and Natural Resources (Senate) Resources (House) Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House)
Primary agency	Department of Energy
Account	Defense Environment, Restoration & Waste Management (89-0242)
Spending type	Discretionary
Budget subfunction	Atomic energy defense activities
Framework theme	Improve efficiency

Both the Department of Energy (DOE) and the Environmental Protection Agency (EPA) are responsible for large environmental cleanup efforts. A major component of DOE's cleanup program involves analyses of toxic and radioactive contaminants. DOE has estimated that these analyses may cost the federal government more than $15 billion over the next 30 years. While both agencies analyze nonradioactive organic and inorganic chemicals using some of the same testing methods, the agencies procure these commonly-used analyses in a different manner. EPA centrally contracts for them while DOE employs a decentralized procurement approach that relies heavily on its operating contractors to subcontract for them through commercial laboratories.

Under its procurement approach, DOE pays higher prices to its commercial laboratories than EPA does for the same analyses and methods, partly because decentralized purchasing practices do not produce price competition, volume discounts, and compliance with one standard contract format. Also, its decentralized approach to procuring commonly-used analyses results in duplication of contractor efforts in the award and management of commercial laboratory subcontracts, which adds inefficiencies and increases administrative costs. GAO's preliminary analysis indicates that if DOE contracted for these services through one central procurement function, similar to EPA's approach, it would receive substantially lower prices from commercial laboratories by consolidating its overall buying power and greatly reduce the inherent duplication in contract award and oversight activities.

DOE estimates that laboratory analyses cost at least 15 percent of its cleanup costs. For fiscal year 1995, DOE was appropriated about $5 billion for Defense Environmental Restoration and Waste Management. By centralizing its laboratory analyses, GAO assumes DOE could achieve savings of $62 million annually as shown in the table below.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	62	62	62	62	62
Outlays	37	57	62	62	62
Savings from the 1995 funding level adjusted for inflation					
Budget authority	62	63	65	67	69
Outlays	37	58	64	66	68

Source: Congressional Budget Office.

Related GAO Product

Report expected to be issued by May 1995

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Option: Improve Department of Energy's Property Management Controls

Authorizing committees	Armed Services (Senate) Energy and Natural Resources (Senate) National Security (House) Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House)
Primary agency	Department of Energy
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Atomic energy defense activities
Framework theme	Improve efficiency

The Department of Energy (DOE) has accumulated a considerable amount of property, including computer, office, and electronic equipment, most of which is managed by its contractors. GAO reviewed the property management activities of 20 of DOE's major contractors and found that $74 million in government-owned property was missing. GAO also determined that, of the 20 contractors reviewed, only seven had property management systems that were approved by DOE as of January 31, 1994. Without such approval, no one can know with certainty how much property might be missing.

Based on 5 years of audit work in this area, GAO believes that each year millions of dollars are spent unnecessarily to replace property that has become missing as a result of contractor actions. To curb this expense, DOE must give property management improvement a higher departmental priority. This improvement could include DOE taking steps to recoup the value of lost or missing property from the responsible contractors. In addition, DOE can ensure that all departmental contractors have approved property management systems in place. While improved controls will achieve savings, a savings estimate was not developed for this option because the value and amount of missing property is unknown.

Related GAO Products

Nuclear Security: Property Control Problems at DOE's Livermore Laboratory Continue (GAO/RCED-91-141, May 16, 1991).

Nuclear Security: DOE Oversight of Livermore's Property Management System Is Inadequate (GAO/RCED-90-122, April 18, 1990).

Department of Energy: Status of DOE's Property Management System (GAO/RCED-94-154FS, April 7, 1994).

Department of Energy: The Property Management System at the Rocky Flats Plant Is Inadequate (GAO/RCED-94-77, March 1, 1994).

GAO Contact

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Option: Restructure Department of Energy's National Laboratories

Authorizing committees	Energy and Natural Resources (Senate) Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House)
Primary agency	Department of Energy
Account	Energy Supply, R&D Activities (89-0224)
Spending type	Discretionary
Budget subfunction	Energy supply
Framework theme	Reassess objectives

The Department of Energy's (DOE) laboratory network is comprised of 28 labs, with a budget of nearly $8 billion and employment at 63,000. Recent shifts in national priorities—principally, the dramatic reduction in the arms race and proposed cutbacks in energy and nuclear research funding—raise questions about the need for all these labs. In particular, DOE's three large defense labs, costing about $1 billion annually, were created to design and test nuclear weapons, a role which has greatly diminished over time. Currently, these labs allocate less than half their budgets to nuclear weapons design, development and testing—the principal reasons they were created. Yet, as GAO has reported, DOE still maintains a redundant structure with respect to nuclear weapons work, an arrangement that may no longer be the most efficient alternative for meeting defense requirements.

Aside from deciding on the ideal number of labs, most experts GAO consulted agree that the missions of the laboratories now need to be clarified if their resources are to be used most effectively. Some are suggesting the current laboratory structure may not be the most rational if the labs are to move into newer mission areas. Suggestions for restructuring range from converting some labs into private or quasi-public entities, transferring labs to universities, or assigning them to different agencies whose missions better match lab strengths.

The Congress should reconsider the role and mission of the laboratories, which could be restructured in various ways. For example, the recent Galvin Commission examined a transfer of most of the nuclear weapons functions of Lawrence Livermore to Los Alamos laboratory. Los Alamos officials estimated that having both facilities design weapons but only one engineer and test them would save up to $200 million in annual operating costs. The table below reflects these savings.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	200	200	200	200	200
Outlays	120	185	200	200	200
Savings from the 1995 funding level adjusted for inflation					
Budget authority	200	204	209	215	221
Outlays	120	188	207	212	218

Source: Congressional Budget Office.

Related GAO Products

National Laboratories Need Clearer Mission and Better Management (GAO/RCED-95-10, January 27, 1995).

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

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

Energy Policy: Changes Needed to Make National Energy Planning More Useful (GAO/RCED-93-29, April 27, 1993).

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

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Option: Negotiate More Realistic Environmental Agreements

Authorizing committees	Energy and Natural Resources (Senate) Resources (House) Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House)
Primary agency	Department of Energy
Account	Defense Environment & Waste Management (89-0242)
Spending type	Discretionary
Budget subfunction	Atomic energy defense activities
Framework theme	Reassess objectives

The Department of Energy's (DOE) Environmental Restoration and Waste Management (EM) program oversees and directs all aspects of the agency's nuclear weapons complex cleanups. DOE has faced criticism about poor management and high costs in the EM program.

As required by Superfund legislation for sites on the National Priorities List, and to secure compliance with other statutes, the Department of Energy (DOE) has entered into agreements with the Environmental Protection Agency and various states to clean up and conduct related activities at the nuclear weapons complex sites. For fiscal year 1995 alone, about $1.4 billion has been targeted for this and related purposes.

However, many of these environmental agreements were negotiated before DOE had accurate information on which to base the scope of work or the milestones to which it is committed. As a result, the agreements taken together do not reflect a national strategy of targeting resources based on the highest risks to human health and the environment. Moreover, many of the contaminated groundwater and soil problems do not yet have acceptable cleanup solutions. And although DOE has spent over $600 million to develop new cleanup technologies, few of them have yet to find their way into DOE's cleanup agenda.

In addition, the EM program, as CBO noted, has not been efficiently managed. Internal and external reviews have found excessive levels of funds supporting management functions.

DOE could achieve both long-term and short-term budgetary savings if it delayed cleanup actions where existing methods cannot achieve the necessary cleanup levels efficiently or effectively. Delaying such projects would require that DOE renegotiate environmental agreements to establish milestones that would allow the agency to employ more advanced cleanup technologies in the future. By renegotiating environmental agreements to delay certain environmental restoration projects and by reducing inefficient administrative and management functions, DOE could achieve significant savings. The Congress may wish to reflect these savings from increased managerial effectiveness in a 10-percent reduction in DOE's EM budget.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	582	582	582	582	582
Outlays	288	491	582	582	582
Savings from the 1995 funding level adjusted for inflation					
Budget authority	602	623	645	667	691
Outlays	303	521	631	653	676

Source: Congressional Budget Office.

Related GAO Products

Department of Energy: National Priorities Needed for Meeting Environmental Agreements (GAO/RCED-95-1, March 3, 1995).

Department of Energy: Management Changes Needed to Expand Use of Innovative Cleanup Technologies (GAO/RCED-94-205, August 10, 1994).

GAO Contact

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Option: Improve Hanford Site Management

Authorizing committees	Energy and Natural Resources (Senate) Resources (House) Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House)
Primary agency	Department of Energy
Account	Defense Environmental Restoration & Waste Management (89-0242)
Spending type	Discretionary
Budget subfunction	Atomic energy defense activities
Framework theme	Improve efficiency

The Hanford Site, a 560-square-mile installation managed by the Department of Energy (DOE), has produced nuclear materials for national defense since 1943. GAO believes that improvement could be made in the management of the site that would reduce future costs. Descriptions of the two components of this option follow.

Hanford Farm Maintenance Procedures

Over 61 million gallons of high-level radioactive waste are stored in 177 underground storage tanks at DOE's Hanford Site in southeast Washington State. Timely maintenance of these aging tanks and equipment for monitoring them is critical because of the hazardous nature of the contents and the potential consequences of a significant leak or other accident. However, a 1992 DOE study found problems with the maintenance program.

GAO believes that DOE has made progress in strengthening the $32 million tank farm maintenance program, resulting in the reduction of the number of uncompleted maintenance projects. However, development of benchmark and, where appropriate, engineered performance standards would help identify additional opportunities to improve tank farm maintenance.

The Congress may wish to encourage DOE to improve the efficiency of its tank farm maintenance program. Savings would depend on the specific actions taken.

Well-Drilling Technology

As part of the cleanup of radioactive and hazardous wastes at its Hanford Site in southeastern Washington State, DOE will install almost 900 permanent and temporary monitoring wells in fiscal years 1993-1997 at a cost of more than $270 million. However, the cost of installing wells could be reduced through the adoption of faster and less expensive well-drilling technologies and using the drilling workforce more efficiently.

GAO believes that Hanford should expedite the evaluation of alternative well-drilling technologies and, in the interim, require its contractors to select the most cost-effective technology, consistent with safety standards, for use at each well being drilled. While employing less costly technologies and more efficient work forces could achieve savings, a budget estimate cannot be developed to reflect such savings. This is because the link between operational efficiencies and the resulting savings is not certain enough for estimation purposes.

Related GAO Product

Nuclear Waste: Future Improvements Needed in the Hanford Tank Farm Maintenance Program (GAO/RCED-95-29, November 8, 1994).

Nuclear Waste: Hanford's Well-Drilling Costs Can Be Reduced (GAO/RCED-93-71, March 4, 1993).

GAO Contact

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Option: Burdensharing in the Republic of Korea

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Defense (Senate) National Security (House)
Primary agency	Department of Defense
Accounts	Operation and Maintenance, Army (21-2020) Air Force (57-3400) Navy (17-1804)
Spending type	Discretionary
Budget subfunction	Department of Defense—Military
Framework theme	Improve efficiency

The United States expects to spend $845 million in fiscal year 1995 on operations and maintenance to support American troops in the Republic of Korea. Operations and maintenance costs include salaries of local national employees working for the U.S. military, utilities, and support services contracts. In 1995, national labor costs (in Korean currency) will amount to the equivalent of about $370 million, or 44 percent of the total estimated operations and maintenance costs. During negotiations in 1994, the United States asked the Korean government to pay $311 million to offset total won-based operations and maintenance costs; the Republic of Korea agreed to pay $300 million. About $90 million of Korea's contribution will offset the national labor costs in 1995.

The United States plans to conduct further negotiations in the spring of 1995 with the Republic of Korea on the level of its support for these costs. GAO believes that the United States should seek an agreement with the Republic of Korea to increase its contribution to include payment of all won-based labor costs. Attaining this goal would significantly reduce the costs to maintain the U.S. presence in Korea. If an agreement were reached, the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 Defense Plan					
Budget authority	290	300	310	320	330
Outlays	220	280	300	310	320

Source: Congressional Budget Office.

Related GAO Product

Military Presence: U.S. Personnel in the Pacific Theater (GAO/NSIAD-91-192, August 20, 1991).

GAO Contact

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150 International Affairs

- Food aid: reduce or eliminate funding for Public Law 480 Title I Program
- U.S. contribution to the International Fund for Agricultural Development
- Shortwave radio modernization program
- TV Marti
- Sell high-value property in Tokyo

Option: Food Aid: Reduce or Eliminate Funding for Public Law 480 Title I Program

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Commerce, Science, and Transportation (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Accounts	P.L. 480 Grants (12-2278) P.L. 480 Program (12-2277)
Spending type	Discretionary/Direct
Budget subfunction	International affairs
Framework theme	Reassess objectives

Through the Public Law 480 Title I Food Aid Program, U.S. agricultural commodities are sold to developing countries on long-term credit at below-market interest rates. The current goal of the program is to promote the foreign policy of the United States by enhancing the food security of developing countries. The Public Law 480 legislation specifies ways that agricultural commodities provided under the program can support this goal, including their use to promote broad-based, sustainable (BBS) development, and develop and expand markets for U.S. agricultural commodities.

Title I's contribution to BBS development and long-term market development for U.S. agricultural goods is limited for many reasons. Title I aid has minimal impact on BBS development because the value of foreign exchange a country might save through purchasing Title I commodities on concessional terms—the vehicle through which BBS development could occur—is small relative to the country's development needs. Also, the program provides USDA little leverage to influence development activities or initiate policy reforms in the recipient country. Furthermore, other competing objectives dilute whatever leverage might be associated with the program.

Title I's contribution to long-term, foreign market development for U.S. agricultural commodities has not been demonstrated. Title I commodities tend to be price sensitive, therefore it is difficult to transform the concessional market share established through the Title I program into commercial market share, unless the United States can offer competitive prices and financing.

In addition, several legislatively mandated program requirements (that is, cargo preference rules, reexport restrictions, and commodity eligibility rules) impose constraints on recipients that undermine market development efforts.

Despite streamlined management adopted in 1990 amendments to the Title I program, multiple and sometimes competing objectives, as well as contradictory program requirements, continue to encumber the Title I program, making it difficult to create and implement an effective program strategy. Thus, from this perspective, the Congress may wish to consider reducing or eliminating funding for the Title I program. The savings presented below assume that the program authority would not be extended beyond fiscal year 1996.[3] The delay would permit USDA to lower production through an increased acreage set-aside in 1996 which would not build surpluses or otherwise affect the budget.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	0	268	268	268	268
Outlays	0	148	254	268	268
Savings from the 1995 funding level adjusted for inflation					
Budget authority	0	286	296	306	317
Outlays	0	158	277	301	312

Source: Congressional Budget Office.

Related GAO Product

Public Law 480 Title I: Economic and Market Development Objectives Not Met (GAO/T-GGD-94-191, August 3, 1994).

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[3] The savings include $29 million for ocean freight differential costs for the shipment of agricultural commodities.

Option: U.S. Contribution to the International Fund for Agricultural Development

Authorizing committees	Foreign Relations (Senate) International Relations (House)
Appropriations subcommittees	Foreign Operations (Senate and House)
Primary agency	Funds appropriated to the President
Account	International Organizations and Programs (11-1005)
Spending type	Discretionary
Budget subfunction	International development and humanitarian assistance
Framework theme	Reassess objectives

The International Fund for Agricultural Development (IFAD) finances projects designed to promote agricultural self-sufficiency in food deficit countries. Members of the Organization for Economic Cooperation and Development, and the Organization of Petroleum Exporting Countries (OPEC) provide most of the funding for IFAD operations, but the United States is the largest single financial contributor. The United States has provided IFAD about $542 million since its inception in 1977: $200 million as the initial contribution, and $180 million, $79.7 million, and $82.8 million for the first, second, and third replenishments, respectively. The IFAD Governing Council will vote on the fourth replenishment in early 1995.

GAO first reported on IFAD in 1981. Since that time, GAO has noted that IFAD has expanded its size and role in project development and implementation significantly beyond what was originally intended. IFAD develops its own projects and its expanded staff is involved in all phases of project management as a consequence. Personnel and administrative costs have increased dramatically. At the same time, donations from OPEC countries have fallen off sharply. GAO has criticized the IFAD funding trends, expanded staff levels, and increased involvement in projects and recommended that IFAD's mission and funding (both the amount and the contribution ratio) be reexamined.

Given the significant changes in IFAD's operations, the funding uncertainties on the part of other members, and the limited U.S. government involvement in monitoring IFAD field activities, GAO believes that further U.S. support for IFAD warrants reassessment. CBO did not provide an estimate of budgetary savings for fiscal years 1996 through 2000 because the administration did not request and the Congress did not provide any funds for IFAD in 1995. If the Congress chose to suspend further U.S. contributions, no future appropriations would be needed.

Related GAO Products

Multilateral Foreign Aid: U.S. Participation in the International Fund for Agricultural Development (GAO/NSIAD-93-176, September 24, 1993).

Status Report on U.S. Participation in the International Fund for Agricultural Development (ID-81-33, March 27, 1981).

GAO Contact

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Option: Shortwave Radio Modernization Program

Authorizing committees	Foreign Relations (Senate) International Relaltions (House)
Appropriations Subcommittees	Commerce, Justice, State, the Judiciary, and Related Agencies (Senate and House)
Primary agency	U.S. Information Agency
Account	Radio Construction (67-0204)
Spending type	Discretionary
Budget subfunction	Foreign information and exchange activities
Framework theme	Reassess objectives

Voice of America (VOA) broadcasts are sent to about 29 leased and owned relay stations worldwide via satellite. Relay stations broadcast VOA programs via shortwave and medium wave transmissions. GAO believes that major political changes and advances in communications technology may render some of the Voice of America's (VOA) planned shortwave station modernization projects obsolete before they are finished.

In Eastern Europe and the republics of the former Soviet Union, indigenous media, including television, have become relatively reliable sources of information. Further, audiences for U.S. government direct broadcasts (VOA and Radio Free Europe/Radio Liberty (RFE/RL)) have declined. In response to the recent consolidation of VOA and RFE/RL within the U.S. Information Agency, the radios have cut back direct broadcast hours and are planning to eliminate redundant language broadcasts. In several locations, they are using alternatives—such as providing programs to local stations for rebroadcast—to supplement or replace direct broadcasts. By the turn of the century, direct broadcasts from satellites delivering high-quality signals may be available.

Despite these changes and the fact that fewer people in target audiences are listening to shortwave broadcasts, VOA plans to continue to construct new shortwave stations and modernize existing ones. Over half of the $900 million VOA plans to spend on modernization between 1994 and 2003 is for shortwave projects that have not yet begun. The planned shortwave modernization projects are not supported by cost-benefit analyses. In 1994, GAO recommended that VOA analyze the costs and benefits of its shortwave modernization projects, given the consolidation of VOA and RFE/RL and the changing political and technological environment.

Because the planned shortwave modernization projects are not supported by cost-benefit analysis, GAO believes that further requests for additional appropriations should be scrutinized and delayed pending further analyses. Only a fraction of the dollars associated with planned modernization projects has been appropriated; therefore, the estimated budget savings compared with the baseline is modest. The following table reflects the savings that could be achieved—only $5 million has been appropriated—if the new Pacific Island shortwave station was not constructed.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	5	5	5	5	5
Outlays	2	3	5	5	5
Savings from the 1995 funding level adjusted for inflation					
Budget authority	5	5	6	6	6
Outlays	2	3	5	6	6

Source: Congressional Budget Office.

Related GAO Products

Voice of America: Station Modernization Projects Need to Be Justified (GAO/NSIAD-94-69, January 24, 1994).

Voice of America: Management Actions Needed to Adjust to a Changing Environment (GAO/NSIAD-92-150, July 24, 1992).

GAO Contact

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Option: TV Marti

Authorizing committees	Foreign Relations (Senate) International Relations (House)
Appropriations subcommittees	Commerce, Justice, State, and Judiciary (Senate and House)
Primary agency	U.S. Information Agency
Account	Broadcasting to Cuba (67-0208)
Spending type	Discretionary
Budget subfunction	Foreign information and exchange activities
Framework theme	Reassess objectives

GAO reports show that although USIA provides television broadcasts to Cuba through TV Marti, the broadcasts are constantly and effectively jammed. USIA's research data shows that, mainly as a result of the jamming, the number of Cubans who are able to watch the broadcasts is small. Other factors that decrease effectiveness of TV Marti include problems with transmission facilities, broadcast hours that are not convenient to viewers, and a broadcast signal that does not reach much beyond the greater Havana area. The U.S. Advisory Commission on Public Diplomacy has reported that TV Marti is not cost-effective and has repeatedly recommended that it be terminated. In March 1994, the Advisory Panel on Radio Marti and TV Marti concluded that TV Marti cannot be considered cost effective and would not be cost effective unless the viewing audience in Cuba could be substantially expanded. According to the Director of USIA's Office of Cuba Broadcasting, TV Marti expanded its daily broadcasts in August 1994 by 2 hours (from 3:30 am to 8:00 am), but Cuban jamming also expanded. In an attempt to overcome jamming, TV Marti has plans to convert from VHF to UHF transmission, at a cost of $1.2 million, even though Cuba could acquire equipment to jam the new signal at relatively little cost. Furthermore, GAO has criticized controls over program quality and objectivity, and according to the Advisory Panel, identified problems do not appear to have been fully resolved.

The Congress may wish to eliminate TV Marti given its persistent problems and its limited ability to achieve its goals. If TV Marti were eliminated, the savings that could be achieved are shown in the following table.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	2	8	8	8	8
Outlays	2	7	8	8	8
Savings from the 1995 funding level adjusted for inflation					
Budget authority	2	9	9	10	10
Outlays	2	8	9	9	10

Source: Congressional Budget Office.

Related GAO Products

TV Marti: Costs and Compliance With Broadcast Standards and International Agreements (GAO/NSIAD-92-199, May 6, 1992).

Broadcasts to Cuba: TV Marti Surveys are Flawed (GAO/NSIAD-90-252, August 9, 1990).

GAO Contact

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Option: Sell High-Value Property in Tokyo

Authorizing committees	Foreign Relations (Senate) International Affairs (House)
Appropriations subcommittees	Commerce, Justice, State, the Judiciary, and Related Agencies (Senate and House)
Primary agency	Department of State
Account	Acquisition and Maintenance of Buildings Abroad (19-0535)
Spending type	Discretionary
Budget subfunction	Conduct of foreign affairs
Framework theme	Reassess objectives

The United States government owns about 3,000 real properties oversees—valued at about $12 billion—some of which could be sold or leased. The State Department is permitted to use real property sales proceeds for other facilities' needs without specific OMB or Congressional approval.

GAO believes that some high-value properties in Tokyo, Japan, are underdeveloped. Analysis demonstrates the feasibility of—and identifies options for—selling portions of this property. One option would be to sell the Deputy Chief of Mission residence and construct a less costly replacement residence on the government-owned housing compound. The State Department has rejected this option because the embassy desired to retain the facility for representational purposes.

The current sales value of this property is uncertain. There has been no recent appraisal of the Deputy Chief of Mission residence, but in 1990, it was valued at $92 million. Embassy information, based on Japanese government reports, shows that residential property values have declined about 30 percent since 1990.

GAO assumes that the Deputy Chief of Mission residence is valued at $40 million—a conservative estimate at less than 50 percent of its value in 1990. GAO also assumes that a replacement residence would be built on the Mitsui compound prior to the current residence being sold. The second residence could be built on government-owned property for $3.8 million, according to a 1991 study conducted for the State Department.

As described in our letter, this option involves an asset sale. Under current BEA rules, therefore, it could not be used for deficit reduction.

Furthermore, the Congress would have to specifically restrict proceeds from the sale of the Deputy Chief of Mission residence from reverting to the State Department's budget, as currently authorized. If legislation were changed, the savings that could be achieved from selling this property are shown in the following table.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Asset Sale					
Budget authority	–4	0	0	0	40
Outlays	–1	–1	–1	–1	40

Source: Congressional Budget Office.

Note: CBO scored this option using the following assumption. Four million dollars would be authorized for the construction of the new Deputy Chief of Mission residence on the Mitsui compound. The sale of the old residence would occur after construction of the first is completed. The sale of the old residence at the assumed level of $40 million would count as savings if legislation were changed.

Related GAO Product

Management of Overseas Real Property (GAO/HR-93-15, December 1992).

GAO Contact

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250 General Science, Space, and Technology

- Space Station

Option: Space Station

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	Human Space Flight (80-0111)
Spending type	Discretionary
Budget subfunction	Space flight, research, and supporting activities
Framework theme	Reassess objectives

In 8 reports and testimonies issued since 1991, GAO has expressed concerns about rising cost estimates that have prompted several redesigns of the space station since it was first funded in fiscal year 1985. In 1993, the station was redesigned again and Russia was brought in as a partner. NASA believed that Russian participation would improve the station's capabilities and reduce the estimated cost to complete assembly by $2 billion. The Congress subsequently capped funding from fiscal year 1994 through 2002 at $17.4 billion.

While all the details of Russian participation have not yet been worked out, it appears that increased Russian involvement in the station will not produce savings and in fact may add to the cost to complete assembly. NASA believes that it can identify other savings to offset the added costs of Russian participation and stay within the $17.4 billion cap. It is not clear that all the necessary reductions can be achieved. Also, it has not been determined to what degree U.S. researchers will benefit from the additional resources available from Russian involvement.

Given the uncertainty that still surrounds the station's cost, schedule, and performance, the Congress may wish to consider whether, and to what extent, it wants to accept NASA's most recent changes. After reviewing the details of these changes, the Congress could consider whether to accept the project's latest redesign, reduce its scope and cost, or terminate it. If the project were terminated, the following savings would result.

Five-Year Savings

Dollars in millions	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	2,100	2,100	2,100	2,100	2,100
Outlays	1,323	1,953	2,100	2,100	2,100
Savings from the 1995 funding level adjusted for inflation					
Budget authority	2,169	2,243	2,323	2,402	2,486
Outlays	1,367	2,064	2,288	2,367	2,450

Source: Congressional Budget Office.

Related GAO Products

Space Station: Update on the Impact of the Expanded Russian Role (GAO/NSIAD-94-248, July 29, 1994).

Space Station: Impact of the Expanded Russian Role on Funding and Research (GAO/NSIAD-94-220, June 21, 1994).

Space Station: Information on National Security Applications and Cost (GAO/NSIAD-93-208, May 18, 1993).

Space Station: Program Instability and Cost Growth Continue Pending Redesign (GAO/NSIAD-93-187, May 18, 1993).

NASA: Large Programs May Consume Increasing Share of Limited Future Budgets (GAO/NSIAD-92-278, September 4, 1992).

Space Station: Status of Financial Reserves (GAO/NSIAD-92-279, July 20, 1992).

NASA Budget: Potential Shortfalls in Funding NASA's 5-Year Plan (GAO/T-NSIAD-92-18, March 17, 1992).

Questions Remain on the Costs, Uses, and Risks of the Redesigned Space Station (GAO/T-NSIAD-91-26, May 1, 1991).

GAO Contact

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270 Energy

- Recover clean coal technology funds
- Delay procurement of nuclear waste containers
- Privatize uranium enrichment program
- Enhance profitability of Naval Petroleum Reserve-1
- Consolidate Strategic Petroleum Reserve

Option: Recover Clean Coal Technology Funds

Authorizing committees	Energy and Natural Resources (Senate) Commerce (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	Energy supply
Framework theme	Reassess objectives

In a May 1994 report to the Congress, DOE estimated that on the basis of its analyses of the funding requirements for the 45 projects in the Clean Coal Technology Program, there would be about $150 million remaining in uncommitted program funds. These funds would remain after meeting the projects' funding needs and after considering the probability of potential project cost increases and the probability of additional projects withdrawing from the program. According to DOE, part of this remaining balance would be needed to pay annual program administrative costs. In its fiscal year 1995 departmental budget request, DOE requested congressional approval to reallocate $100 million ($20 million in fiscal year 1995 and $80 million in fiscal year 1996) of the uncommitted funds to begin a new international clean coal technology transfer effort. However, DOE's proposal was not approved. Thus, at least $100 million in uncommitted funds originally appropriated for the Clean Coal Technology Program could be rescinded. If the Congress chose to cut future budget authority by this amount, the following savings could occur. However, savings in outlays would occur beyond the 5-year period, when budget authority is expected to be used.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	100	0	0	0	0
Outlays	0	0	0	0	0
Savings from the 1995 funding level adjusted for inflation					
Budget authority	100	0	0	0	0
Outlays	0	0	0	0	0

Source: Congressional Budget Office.

Related GAO Products

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, October 30, 1991).

GAO Contact

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Option: Delay Procurement of Nuclear Waste Containers

Authorizing committees	Energy and Natural Resources (Senate) Resources (House) Commerce (House)
Appropriations subcommittees	Energy and Water Development (Senate and House)
Primary agency	Department of Energy
Account	Nuclear Waste Disposal Fund (89-5227)
Spending type	Discretionary
Budget subfunction	Energy supply
Framework theme	Reassess objectives

In February 1994, DOE decided to develop by 1998 a system of nuclear waste containers, called multipurpose containers, that would be used initially to store and/or transport waste, and later to permanently dispose of the waste in an underground geologic repository. DOE plans to spend $36 million on this initiative in fiscal year 1995 and about $254 million in fiscal years 1996 through 1999.

GAO is concerned that the repository will not be ready to receive the waste for at least 15 more years and that DOE has no realistic prospects for developing a federal facility to temporarily store the waste. Until the repository is ready, DOE intends to make the multipurpose containers available to utilities that operate nuclear power plants to store their waste.

Developing the multipurpose container system over the next few years so utilities can use the containers to store waste is premature for two reasons. First, the final design of the container system depends, in part, on the results of ongoing studies of a candidate repository site in Nevada. Development and use of the container system in advance of the results of these studies may require DOE to eventually spend more money to rework the container system to make it compatible with the actual repository environment. Second, DOE's preliminary position is that, in the absence of a repository or federal storage facility, DOE is not obligated to begin accepting waste from utilities. Delaying the procurement of a container system indefinitely could reduce future costs and produce the following savings.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	64	64	64	64	0
Outlays	32	58	64	64	32
Savings from the 1995 funding level adjusted for inflation					
Budget authority	64	64	64	64	0
Outlays	32	58	64	64	32

Source: Congressional Budget Office.

Related GAO Products

Nuclear Waste: Comprehensive Review of the Disposal Program Is Needed (GAO/RCED-94-299, September 27, 1994).

Nuclear Waste: Development of Casks for Transporting Spent Fuel Needs Modification (GAO/RCED-92-56, March 13, 1992).

Nuclear Waste: Operation of Monitored Retrievable Storage Facility Is Unlikely by 1998 (GAO/RCED-91-194, September 24, 1991).

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Option: Privatize Uranium Enrichment Program

Authorizing committees	Energy and Natural Resources (Senate) Commerce (House)
Primary agency	U.S. Enrichment Corporation
Account	U.S. Enrichment Corporation Fund (95-4045)
Spending type	Direct
Budget subfunction	Energy supply
Framework theme	Reassess objectives

For many years GAO supported legislation that would have created a government corporation as an initial step toward the eventual privatization of the Department of Energy's uranium enrichment program. The Energy Policy Act of 1992 established the United States Enrichment Corporation which returns revenues less operating expenses and a deposit to a working capital fund to the Treasury. The act also requires the corporation to develop by July 1995 a plan to privatize the government's uranium business and requires GAO to review the plan before it is implemented. GAO is to determine if (1) the sale of the corporation would result in any undue cost to the government and (2) the revenues gained from the sale would represent at least the net present value of the corporation.

To illustrate potential savings from this option, if the United States Enrichment Corporation were sold, CBO estimates that the 5-year savings that follow could be achieved. According to CBO, selling the Corporation would require about $150 million in expenses in 1996 to prepare and implement the sale. After sale, which CBO assumes would be completed in fiscal year 1997, the government would reduce net outlays for 1998 through 2000. Based on Office of Management and Budget and United States Enrichment Corporation information, CBO estimates that asset sale receipts for selling the Corporation would total about $1.5 billion over the 1996 through 1997 period. Under current budget rules, however, receipts from asset sales are not scorable for deficit reduction.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Assets sales					
Budget authority	400	1,100	0	0	0
Outlays	400	1,100	0	0	0

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	0	0	0	0	0
Outlays	–150	–8	10	88	159

Source: Congressional Budget Office.

Related GAO Products

UEC Cash Flow Projection (GAO/RCED-92-292BR, September 17, 1992).

Comments on Proposed Legislation to Restructure DOE's Uranium Enrichment Program (GAO/T-RCED-92-14, October 29, 1991).

Comments on H.R. 2480, The Uranium Enrichment Reorganization Act (GAO/T-RCED-91-3, October 11, 1990).

Comments on Smith Barney's Uranium Enrichment Analysis (GAO/T-RCED-90-101, July 31, 1990).

GAO Contact

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Option: Enhance Profitability of Naval Petroleum Reserve-1

Authorizing committees	Armed Services (Senate) National Security (House)
Appropriations subcommittees	Interior and Related Agencies (Senate and House)
Primary agency	Department of Energy
Account	Energy Programs (89-0219)
Spending type	Discretionary
Budget subfunction	Energy supply
Framework theme	Improve efficiency

The Naval Petroleum Reserve-1 (NPR-1) in Elk Hills, California, was established in the early 1900s to ensure fuel supplies for the military. The reserves were largely inactive until the Congress enacted new legislation in 1976 in response to the 1973 through 1974 Arab oil embargo. The Naval Petroleum Reserves Production Act of 1976 (Public Law 94-258) changed NPR-1 from a strategic reserve for the military to a source of oil for the U.S. economy and revenue for the U.S. government. The U.S. government owns approximately 78 percent of this oil and gas field; Chevron U.S.A., Inc. owns 22 percent. DOE, as the administrator for the U.S. government, is authorized to develop and operate the field.

Since NPR-1 has been primarily viewed as a source of revenue for the U.S. Treasury, GAO has issued a series of reports relating to issues that need to be addressed to (1) protect the government's interests in the event of the sale of the reserve, (2) increase its revenues by improving its marketing techniques, and (3) enhance its profitability by operating the field more along the line of a commercial oil and gas operation.

The Congress may wish to consider amending the NPR Production Act of 1976 to provide DOE with the flexibility to operate NPR-1 in a way that maximizes the value of the asset rather than maximizing the production of oil, as is currently the case.

If the Congress and the Secretary of Energy adopt our recommendations, we believe that over the next 30 years, hundreds of millions of dollars could be generated for the U.S. taxpayer. For example, to meet the production requirement, DOE injects gas to enhance oil recovery. According to preliminary studies by DOE, Bechtel, and Chevron, if this requirement was eliminated, the gas sold from two reservoirs could generate a profit of about $200 million in net present value to DOE.

While CBO agrees that revenues might be generated over the long-term from this option, CBO is not able to estimate year-to-year savings. The CBO baseline already anticipates some revenue from NPR-1. Estimating additional future revenues would depend on the specific management changes adopted, the time needed for implementation, and future market conditions.

Related GAO Products

Naval Petroleum Reserve: Opportunities Exist to Enhance Its Profitability (GAO/RCED-95-65, January 12, 1995).

Naval Petroleum Reserve: Limited Opportunities Exist to Increase Revenues From Oil Sales in California (GAO/RCED-94-126, May 24, 1994).

Naval Petroleum Reserve No. 1: Efforts to Sell the Reserve (GAO/RCED-88-198, July 28, 1988).

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Option: Consolidate Strategic Petroleum Reserve

Authorizing committees	Energy and Natural Resources (Senate) Commerce (House)
Appropriations subcommittees	Interior and Related Agencies (Senate and House)
Primary agency	Department of Energy
Accounts	Strategic Petroleum Reserve (89-0218) SPR Petroleum Account (89-0233)
Spending type	Discretionary
Budget subfunction	Defense-related activities Emergency energy preparedness
Framework theme	Improve efficiency

Because of budget constraints, very little crude oil has been purchased for storage in the Strategic Petroleum Reserve (SPR) since 1993, and no additional purchases are planned for fiscal year 1995. Currently, the reserve has about 150 million barrels of excess storage capacity spread out over four of the five storage sites. Consolidation of storage sites would result in lower operations and maintenance costs if DOE maintains the amount of oil stored in the reserve at its current level of about 600 million barrels. DOE has decided to close one site that has a serious problem with water intrusion. Additional savings could result from closing another site in addition to the one with the water intrusion problem. Reducing the number of storage sites would reduce the amount of oil that could be withdrawn on a daily basis.

Savings for this option would depend on the number of storage sites closed and the associated transfer costs. Preliminary estimates have been calculated by a DOE contractor for several alternatives, with varying time frames for potential savings. The estimated net cost savings from decommissioning and mothballing specific storage sites and transferring the oil to the remaining sites range from about $105 million to about $394 million after a 20-year period, depending on the consolidation alternative selected and whether the sites are reactivated.

To illustrate the potential savings that could be achieved from this option, two sites could be mothballed and not reopened. According to CBO, if DOE was required to sell a sufficient amount of existing oil stocks to pay for the consolidation, no net transport and handling costs for shutting down two facilities and moving oil elsewhere would occur. This scenario would require asset sale receipts (selling of oil stocks) to pay for the consolidation costs. As shown in the table that follows, paying for such costs with receipts would then yield net operations savings of about $15 million to $25 million per year beginning in fiscal year 1999.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	0	0	0	15	25
Outlays	0	0	0	0	12
Savings from the 1995 funding level adjusted for inflation					
Budget authority	0	0	0	17	28
Outlays	0	0	0	0	11

Source: Congressional Budget Office.

Related GAO Product

Energy Policy: Ranking Options to Improve the Readiness of and Expand the Strategic Petroleum Reserve (GAO/RCED-94-259, August 18, 1994).

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300 Natural Resources and Environment

- Federal land policies
- Collaborative federal land management approach
- Federal timber sales
- Conservation reserve program contracts
- Charge fair market value for natural resources
- Communication site fees
- Recreation fees at federal sites
- Hardrock mining royalties
- Natural resources revenue sharing
- Changing how federal needs for helium are met
- Federal water policies
- Water transfers
- Pollution fees and taxes
- Hazardous waste cleanup cost recovery
- Nuclear waste disposal fees

Option: Federal Land Policies

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

The federal government owns and manages more than 700 million acres—nearly one-third of the U.S. landmass. For many years, these lands have been sold or otherwise made available for a variety of purposes to private citizens, corporations, and state and local governments. In many cases, the rate of return received by the government for the sale or use of these valuable natural resources has fallen far below reasonable market-based levels.

This option has two components: increased fees for patenting hardrock mining claims and higher fees for concessionaires operating on federal lands. Descriptions of each component follow.

Increased Fees for Patenting Hardrock Mining Claims

The Mining Law of 1872 allows holders of economically minable claims to obtain all rights and interests to both the land and the minerals by patenting them for $2.50 or $5.00 an acre—an amount that approximated the fair market value for western grazing land and farmland in 1872. Over the last 123 years, the federal government has sold about 3.2 million acres of public lands, or an area about the size of Connecticut, under this patent provision. As a result, some patent holders have reaped huge profits at the government's expense. At the time of GAO's 1989 study, 265 patent applications were pending for more than 80,000 acres of public land. At just 12 of these sites, if all the land applied for was patented, the government would have received about $16,000 for land appraised in 1988 at between $14.4 million and $47.1 million.

Both the House-passed version (H.R. 322) and the Senate-passed version (S. 775) of hardrock mining law reform eliminated the patenting of federal land, and the fiscal year 1995 appropriations bill for the Department of the Interior and related agencies (H.R. 4602) includes a 1-year moratorium on new mining patent applications, including about 180 that are pending.

Higher Fees for Concessionaires Operating on Federal Lands

The federal government enters into agreements with concessionaires to serve as the principal operators of parks, forests, and other recreation areas. In 1991, GAO reported that concessionaires generated about $1.4 billion in gross revenues and paid the government about $35 million in concession fees—an average return to the government of about 2 percent. Interior's follow-on report to the Vice President's National Performance Review concluded that receipts from concession franchise fees must be actively pursued by the National Park Service, estimating that substantial revenue could be generated by promoting competition, expediting contract renegotiations, and boosting the government's return. Legislation to reform concession management overwhelmingly passed both houses during the 103rd Congress. However, a compromise could not be reached and the legislation did not pass before the Congress adjourned. However, concession legislation will likely be one of five key park and recreation bills the House Committee on Resources will address.

CBO cannot develop a 5-year estimate of additional receipts due to increased fees for patenting hardrock mining claims at this time. The difficulties of estimating the commercial value of holdings, combined with the lack of essential data on those holdings, makes estimating savings difficult.

CBO also cannot develop a 5-year estimate of additional receipts from higher fees for concessionaires operating on federal land at this time. Any increase in the average rate of return to the government from concessionaire revenue would depend on future market competition, contract renegotiations, and the specific management changes adopted by the Congress.

Related GAO Products

Hardrock Mining Patents

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

Federal Land Management: The Mining Law of 1872 Needs Revision (GAO/RCED-89-72, March 10, 1989).

Concessionaires Operating on Federal Lands

Federal Lands: Little Progress Made in Improving Oversight of Concessionaires (GAO/T-RCED-93-42, May 27, 1993).

Forest Service: Little Assurance That Fair Market Value Fees Are Collected From Ski Areas (GAO/RCED-93-107, April 16, 1993).

Federal Lands: Improvements Needed in Managing Concessionaires (GAO/RCED-91-163, June 11, 1991).

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Option: Collaborative Federal Land Management Approach

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	Discretionary
Budget subfunction	Conservation and land management
Framework theme	Improve efficiency

As a result of the National Performance Review recommendations, the four primary federal land management agencies—the National Park Service, Bureau of Land Management (BLM), and Fish and Wildlife Service within Interior and the Forest Service within Agriculture—have prepared or are preparing a streamlining plan that would show how they would reduce and restructure its workforce. However, by looking beyond existing jurisdictional boundaries, a collaborative federal approach to land management has the potential to achieve additional efficiencies by refocusing, combining, or eliminating certain missions, programs, activities, or field locations.

Through the years, there have been several attempts to have agencies collaborate in managing federal land. These include (1) consolidating BLM's and the Forest Service's responsibilities for managing adjacent lands in western Oregon and Washington to eliminate 280 permanent positions at an estimated annual savings of $10.3 million, (2) the potential for eliminating 2 to 4 Forest Service regions, about 40 forest supervisor offices, and 70 district offices, estimated in 1992 to save between $3.5 million and $15.2 million over 5 years and between $82 million and $95.7 million over 10 years, and (3) using shared resources such as a Forest Service supervisor overseeing both Forest Service and BLM employees in Oregon.

CBO cannot develop a 5-year savings estimate at this time. Estimating savings due to sharing resources between the Forest Service and BLM can be difficult. Savings would depend on the extent of the work force restructuring and implementation plan.

Related GAO Products

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, February 1, 1994).

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Option: Federal Timber Sales

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Interior and Related Agencies (Senate and House)
Primary agency	Department of Agriculture
Account	National Forest System (12-1106) National Forest Service Receipts (12-9990)
Spending type	Discretionary
Budget subfunction	Conservation and land management
Framework theme	Improve efficiency

USDA's Forest Service does not always recover its costs on sales of timber, resulting in below-cost sales. Currently, the Service receives most of its operating funds from receipts from timber sales and from appropriated funds linked to primarily timber management and harvest. Thus, in every national forest, even in those where timber harvesting is uneconomic and other activities and uses are more valuable, forest managers are overwhelmingly dependent on timber sales for funding.

GAO estimated that in fiscal year 1990, under the most conservative definition of costs, $35.6 million in Forest Service preparation and administration expenses went unrecovered. GAO's estimates ranged as high as $112.2 million when all operating costs and payments to states were considered.

The Congress may wish to cease all below-cost federal timber sales. For example, all future timber sales could be eliminated in three of the Forest Service's nine regions where, on average over the last decade, cash expenditures have exceeded cash receipts but would also reduce Forest Service outlays for timber management, reforestation, construction of logging roads, and other program costs. CBO estimates that the following net 5-year savings in federal outlays could be achieved.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	20	35	50	60	80
Outlays	15	30	45	55	75
Savings from the 1995 funding level adjusted for inflation					
Budget authority	20	35	50	60	80
Outlays	15	30	45	55	75

Source: Congressional Budget Office.

Related GAO Products

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

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

Comments on Below-Cost Timber Bills (GAO/RCED-92-160R, April 1, 1992).

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

Forest Service Needs to Improve Efforts to Protect the Government's Financial Interest and Reduce Below-Cost Timber Sales (GAO/T-RCED-91-42, April 24, 1991).

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Option: Conservation Reserve Program Contracts

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Account	Conservation Reserve Program (12-3319)
Spending type	Direct
Budget subfunction	Conservation and land management
Framework theme	Improve efficiency

The Conservation Reserve Program (CRP) was mandated by the Food Security Act of 1985 to help farmers control soil erosion on environmentally sensitive cropland, decrease production of surplus agricultural commodities, and support farmers' income. To implement CRP, USDA offered 10- to 15-year contracts for rental payments to farmers who agreed to replace cropland with a grass cover or other conserving use. CRP contracts begin to expire in 1996. Between fiscal years 1996 through 2003, these contracts commit the government to pay $6.1 billion in annual rental payments.

From its inception through 1992, about 36.5 million acres have been enrolled. For fiscal year 1995, the government's annual rental payments to farmers are estimated to be $1.7 billion. Although enrolling acreage in CRP instead of annual commodity programs reduces costs in USDA's annual price and income support programs, USDA has estimated that the CRP has a net government cost between $2 billion and $6.6 billion over the life of the program.

Since 1985, several conditions have emerged that may warrant modifying CRP contracts to provide farmers more flexibility to use their CRP land for new crop and conservation opportunities. A favorable climate for CRP reform now exists due to a general improvement in the farm economy since the 1980s, potential new market growth arising from the North American Free Trade Agreement and the General Agreement on Tariffs and Trade, and the application of more sustainable practices of the conservation compliance program. Under these new conditions, modifying CRP contracts could release suitable acres for the development of new conservation cropping practices.

There are numerous options to modify CRP contracts to adjust to new conditions. Two options include (1) allowing farmers to terminate contracts without incurring financial penalty and (2) permitting conservation-compatible economic uses on their CRP acres, such as haying, grazing, and biomass production. Budget savings under the first option would depend on assumptions concerning when and how many farmers participate and the extent to which these farmers participate in other USDA price and income support programs. Consistent with this option, in December 1994, the Secretary of Agriculture announced that USDA will consider requests from farmers to be released from their CRP contracts or to reduce the acreage subject to it. Under the second option, the contract holder would receive a reduced rental payment in return for the ability to generate revenues on their CRP land.

Under both options, there are also nonbudget considerations. If farmers terminate their CRP contracts early to return to crop production, it will be necessary to develop alternative means of sustaining the environmental benefits that have been achieved through CRP. If farmers are permitted to return some of their CRP acres to uses such as haying and grazing, there could be a significant economic impact on existing livestock producers.

CBO cannot develop a 5-year savings estimate for the first component of this option—early termination of CRP contracts—at this time. Savings would depend on the farmer participation and potential interactions with other agricultural programs.

To illustrate the potential savings under the second component of this option, permitting conservation-compatible economic uses on CRP acres, farmers could be allowed to use some of the land in the CRP for haying or grazing in exchange for a fee or a reduction in other government payments. The per acre charge would be set according to local market rental rates for haying or grazing. CBO estimates that federal outlays would thus be reduced by an estimated $453 million over the 1996 through 2000 period.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Budget authority	80	92	89	100	91
Outlays	80	92	89	100	91

Source: Congressional Budget Office.

Related GAO Products

Conservation Reserve Program: Alternatives Are Available for Managing Environmentally Sensitive Cropland (GAO/RCED-95-42, in draft, expected March 1995).

Conservation Reserve Program: Cost-Effectiveness Is Uncertain (GAO/RCED-93-132, March 26, 1993).

Conservation Reserve Program: Determining Program's Effects on Production Depends on Assumptions (GAO/RCED-90-201, July 25, 1990).

Farm Programs: Conservation Reserve Program Could Be Less Costly and More Effective (GAO/RCED-90-13, November 15, 1989).

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Option: Charge Fair Market Value for 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	Improve efficiency

Market-based incentives may provide opportunities to encourage ecologically and economically sound use of the nation's natural resources. For example, some believe that forest managers should be rewarded for making money and protecting the environment. They have suggested that forest managers be allowed to charge fair market value for all of the resources within their land units and that each land unit receive funds from the net receipts it earned the previous year. While this approach would require specific statutory authority, legislative precedent exists for returning revenues to the agencies or land units carrying out the activities or programs.

According to the World Resources Institute, with approximately 250 million visitor days annually, at a conservative value of about $10 per day of recreational use, the national forests provide recreational services worth $2.5 billion per year compared to the gross value of timber sales of $800 million in 1991. The Forest Service estimates that if it collected the full value of the recreational services it provides, annual revenues would reach $5 billion. At the same time, fees would sensitize consumers to the value of the services the forests provide.

CBO cannot develop a 5-year estimate for this option at this time. Future revenues would depend on the fee structure, method of implementation, and market reaction.

Related GAO Product

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

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Option: Communication Site Fees

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	Improve efficiency

In many cases, current annual fees for using communications sites on lands administered by Agriculture's Forest Service and Interior's Bureau of Land Management (BLM) are significantly below fair market value. For example, the annual fees paid by television broadcasters at a large Forest Service communications site near Los Angeles, California, are only about 2 to 15 percent of fees based on the site's appraised fair market value.

Forest Service and BLM officials estimate that charging fees based on fair market value would increase total federal revenues by over 500 percent—from about $4 million annually to about $23 million annually. CBO cannot develop a 5-year estimate for this option at this time. Additional revenues gained by charging fair market value would depend on the fee structure adopted, implementation, and future market conditions.

Related GAO Products

Federal Lands: Fees for Communications Sites Are Below Fair Market Value (GAO/RCED-94-248, July 12, 1994).

Federal Lands: Fees for Communications Sites Are Below Fair Market Value (GAO/T-RCED-94-262, July 12, 1994).

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Option: Recreation Fees at Federal Sites

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Energy and Natural Resources (Senate) Agriculture (House) Resources (House) Transportation and Infrastructure (House)
Primary agencies	Department of the Interior Department of Agriculture Department of the Army
Spending type	Direct
Framework theme	Improve efficiency

Improved pricing of user fees at recreational sites could help defray direct costs to the government, shift the cost burden from the taxpayers to the beneficiaries of the services, and alleviate overcrowding at many sites. Entrance and user fees are charged at some sites, but the fees generally cover only a small portion of the costs for services provided to visitors. For example, in 1993, Interior's National Park Service spent an estimated $230 million on services for visitors but recovered only an estimated $90 million in fees. Interior's Office of Inspector General reported that the Service did not collect as much as anticipated because the fees collected were not returned to the individual parks. This led to a lack of incentive, which, together with staffing and funding shortfalls, resulted in the Service not collecting an estimated $105 million during fiscal year 1991.

Interior's follow-on report to the Vice President's National Performance Review concluded that reform in the nature, level, and collection of fees in national parks could generate substantial revenues. The administration's fiscal year 1995 budget sought expanded authority to increase park entrance and other recreation user fees. Legislation to increase entrance fees and to give the Secretary of the Interior more discretion to set entrance, recreation, and special-use fees was introduced in both the House (H.R. 4533) and the Senate (S. 2121). However, neither of these bills passed before the 103rd Congress adjourned.

Increasing such fees and disallowing their use for increased park spending would yield net new receipts over the fiscal year 1996 through 2000 period as shown in the following table. Any spending increases resulting from increased fees would be subject to new authorizing legislation.

Five-Year Savings

Dollar in millions

	FY96	FY97	FY98	FY99	FY00
Added receipts	175	172	181	188	196

Source: Congressional Budget Office.

Related GAO Products

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

Forest Service: Difficult Choices Face the Future of the Recreation Program (GAO/RCED-91-115, April 15, 1991).

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Option: Hardrock Mining Royalties

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	Improve efficiency

The government receives no financial compensation for hardrock minerals extracted from federal lands. In 1990, hardrock minerals worth at least $1.2 billion were extracted from federal lands, while known, economically recoverable reserves of hardrock minerals remaining on federal lands were valued at $64.9 billion.

The Congress may wish to consider receiving financial compensation for hardrock minerals extracted from federal lands. The administration's fiscal year 1995 budget assumed fee levels and reforms consistent with H.R. 322, the House-passed version of hardrock mining law reform. This bill would have charged an 8-percent royalty on gross profits on existing and future claims. Conversely, the Senate-passed version (S. 775) would have charged a 2-percent royalty on net (point of extraction). The lengthy 2-year effort to overhaul the nation's 122-year old mining policy ended on September 29, 1994, when House and Senate conferees acknowledged that they could not reconcile their differences. If the Congress adopted fee levels and reforms consistent with H.R. 322, the House-passed version, CBO estimates that the following receipts would be gained.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Added receipts	70	70	70	70	70

Source: Congressional Budget Office.

Related GAO Products

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

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

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

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Option: Natural Resources Revenue Sharing

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

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 to a level below its costs.

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

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	170	175	180	190	195
Outlays	135	175	180	190	195
Savings from the 1995 funding level adjusted for inflation					
Budget authority	170	175	180	190	195
Outlays	135	175	180	190	195

Source: Congressional Budget Office.

Related GAO Products

Natural Resources Management Issues (GAO/OCG-93-17TR, December 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, April 25, 1991).

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

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Option: Changing How Federal Needs for Helium Are Met

Authorizing committees	Energy and Natural Resources (Senate) Resources (House)
Appropriations subcommittees	Interior and Related Agencies (Senate and House)
Primary agency	Department of the Interior
Accounts	Helium fund (14-4053)
Spending type	Direct
Budget subfunction	Other natural resources
Framework theme	Reassess objectives

The Helium Act of 1960 was passed in response to growing federal needs for helium. The objectives of the 1960 act are to (1) conserve helium for future use, (2) provide a sustained supply of helium sufficient for essential government activities, and (3) foster and encourage individual enterprise in the development and distribution of helium. The act required that federal agencies purchase their major requirements for helium from Interior's Bureau of Mines.

The 1960 act required that the program's net capital and retained earnings, plus subsequent program borrowing from the Treasury for purchases of crude helium, be established as debt in the Helium Fund. The act required that the helium program debt, plus compound interest, be repaid to the Treasury by 1995 from helium sales revenues. Because the Bureau did not set its sale price to federal agencies high enough to recover the initial program costs and subsequent interest the Helium Fund remains in debt.

As GAO reports document, many conditions have changed since the Helium Act of 1960 was passed and we believe the act's objectives should be reassessed. In 1960, the Bureau was the sole producer of refined helium, but now a helium private industry supplies almost 90 percent of refined U.S. helium and could meet federal needs for helium if there were no Bureau program. Also, in 1960 there was concern that helium conservation was necessary to ensure that federal needs could be met, but now the Bureau has enough helium in storage to meet federal needs until at least 2070. Because these changes have affected the act's objectives and the Bureau's ability to repay the helium debt, GAO has recommended that the Congress (1) reassess how to meet current and foreseeable federal needs for helium and (2) cancel the program debt because canceling the debt would not adversely affect the federal budget. Any decision on how to meet federal needs for helium should consider not only the effects of the changes that have occurred since 1960, but also (1) the interrelationship of the act's objectives, recognizing that a change to one could affect another, and (2) the decision's effect on the federal budget and the total cost of supplying helium to the U.S. economy.

The administration's fiscal year 1996 budget proposed to privatize the helium program by (1) selling or leasing the Bureau of Mines production facility and (2) selling the crude helium reserve. However, under the Budget Enforcement Act of 1990 (BEA) rules, proceeds from asset sales cannot be used to offset discretionary spending or new spending from PAYGO-controlled legislation. Recognizing this, the administration has proposed to amend the rules.

Our option, like H.R. 3967 which was introduced during the 103rd Congress, is scored under current scorekeeping rules. Under these rules the following savings could be achieved if the Congress chose to prohibit the Bureau of Mines from refining crude helium and selling refined helium. Instead, the Bureau would sell crude helium. Under this alternative, the federal government would maintain a small helium reserve inventory, and federal agencies would be required to buy refined helium from private industry sources. Savings from the sale of facilities and equipment no longer needed to store helium would yield assets sales of $1 million. Both sets of savings are shown in the tables that follow.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Assets sales					
Budget authority	0	1	0	0	0
Outlays	0	1	0	0	0

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	0	0	0	0	0
Outlays	0	4	7	7	8

Source: Congressional Budget Office.

Note: The CBO estimates do not reflect the effects of cancelling the program debt because cancelling the debt would not adversely affect the federal debt.

Related GAO Products

Mineral Resources: H.R. 3967—A Bill to Change How Federal Needs for Refined Helium Are Met (GAO/T-RCED-94-183, April 19, 1994).

Mineral Resources: Meeting Federal Needs for Helium (GAO/T-RCED-93-44, May 20, 1993).

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

GAO Contact

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Option: Federal Water Policies

Authorizing committees	Energy and Natural Resources (Senate) Resources (House)
Primary agency	Department of the Interior
Accounts	Multiple
Spending type	Direct
Budget subfunction	Water resources
Framework theme	Improve efficiency

This broad option has four components: increased fees for subsidized federal water to large farms, subsidized water to produce subsidized crops, repayment of water project construction costs, and federal water subsidies. Descriptions of each of the components follow.

Increased Fees for Subsidized Federal Water to 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 which it is entitled to receive under the act.

Subsidized Water to Produce Subsidized 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. 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.

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, or 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 the CVP by 2030. While construction costs may ultimately 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.

Federal Water Subsidies

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

The savings in the table below would be achieved if the Congress required farms of more than 960 acres to pay the full cost of federal irrigation water and allowed those who grow surplus agricultural commodities to receive either crop support payments or federally subsidized water in the CVP, but not both. A 5-year estimate of additional receipts for the repayment of water project construction costs could not be made because savings fall beyond the 5-year period CBO uses. Savings from changing federal water subsidies cannot be developed at this time because savings would depend on the extent to which irrigators could be made to pay more of these costs.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	15	15	20	30	30
Outlays	15	15	20	30	30

Source: Congressional Budget Office.

Related GAO Products

Subsidized Federal Water to Large Farms

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

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

Subsidized Water to Produce Subsidized Crops

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

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

Repayment of Water Project Construction Costs

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

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

Federal Water Subsidies

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

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

GAO Contact

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Option: 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 relocating scarce water to new users by allowing those who place the highest economic value on it to purchase it. Water transfers from irrigation to municipal and industrial uses can increase federal revenues because municipal and industrial users pay rates based on their full share of the project's construction cost plus interest. In contrast, many irrigators pay only a portion of their share of the construction costs and are exempt from paying interest. However, 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.

A 5-year estimate of additional receipts cannot be developed at this time. The difficulties of estimating the highest economic value of water and which users are willing to pay that value inhibit estimation.

Related GAO Product

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

GAO Contact

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Option: Pollution Fees and Taxes

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Environmental Protection Agency
Spending type	Direct
Framework theme	Improve efficiency

User fees, cost reimbursement mechanisms, and pollution taxes could help defray the costs of administering environmental protection programs, encourage pollution prevention, and generate significant revenue. Taxes on emissions of pollutants, and on the harmful substances themselves, could supplement regulatory efforts to meet the objectives of existing environmental laws. Based on our audit work 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.

Based on our work, 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 discharge, effective on discharges of water pollutants made after December 31, 1995. Rates range from $0.2426 per pound for the least toxic pollutant to $63.40 per pound for the most toxic pollutant.

Five-Year Revenues

Dollars in billions

	FY96	FY97	FY98	FY99	FY00
Revenue gain	0.4	0.6	0.6	0.6	0.6

Source: Joint Committee on Taxation.

Note: JCT provided its revenue estimates in billions of dollars.

Related GAO Products

Environmental Protection: Implications of Using Pollution Taxes to Supplement Regulation (GAO/RCED-93-13, February 17, 1993).

Hazardous Waste: Much Work Remains to Accelerate Facility Cleanups (GAO/RCED-93-15, January 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).

GAO Contact

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Option: 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	Pollution control and abatement
Framework theme	Improve efficiency

GAO first reported on the need for a better managed superfund program in 1989. More recently GAO has found that the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) prevents the Environmental Protection Agency (EPA) from charging polluters hundreds of millions of dollars in additional interest on the cost EPA incurs to clean up Superfund sites by setting an interest rate significantly lower than commercial rates. The act also fails to explicitly authorize EPA to recover indirect costs, such as those for research and development. If EPA had been allowed to accrue interest at a commercial rate from the date funds were expended, GAO estimates that $105 million in interest could have been accrued in 1990 on the funds EPA expended in fiscal year 1989 alone. We also estimated that through fiscal year 1988, EPA did not collect $800 million in indirect clean-up costs incurred from activities such as administrative management, research and development on clean-up approaches, and some enforcement, audit and legal services.

The Congress should amend CERCLA to allow EPA to recover from responsible parties more interest on the cost it incurs to clean up Superfund sites and to explicitly authorize EPA to recover indirect costs.

Savings could not be estimated due to EPA's varying success in collecting the full amount of current penalty and interest charges.

Related GAO Products

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

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

Superfund: A More Vigorous and Better Managed Enforcement Program is Needed (GAO/RCED-90-22, December 14, 1989).

GAO Contact

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Option: 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	Improve efficiency

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

	FY96	FY97	FY98	FY99	FY00
Added receipts	19	40	64	86	110

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).

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350 Agriculture

- U.S. Department of Agriculture dairy price support program
- Milk marketing orders
- U.S. Department of Agriculture crop price supports
- Farm lands eligible for deficiency payments
- Rice program
- Peanut program
- Reduce or eliminate funding for the Market Promotion Program
- Reduce funding for the Export Credit Guarantee Programs

Option: U.S. Department of Agriculture Dairy Price Support Program

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Account	Commodity Credit Corporation Fund (12-4336)
Spending type	Direct
Budget subfunction	Farm income stabilization
Framework theme	Reassess objectives

To ensure long-term viability, the dairy industry will have to increase its efforts to become more dependent on commercial markets—particularly international markets. A major factor that has impeded the dairy industry's ability to more effectively expand and compete in global markets has been the Price Support Program and the Dairy Export Incentive Program, which encourages the production of dairy products that do not always meet customers' requirements, and often result in U.S. market prices that exceed world prices. For example, the 1993 U.S. market price for cheddar cheese was $1.28 per pound, while the world price was $0.81 per pound. The cost of dairy support purchases was approximately $315 million in fiscal year 1993 at a support price of $10.10 per hundred-weight of milk equivalent, which continues to be the support price today. Furthermore, the dairy program has influenced the U.S. dairy industry to place more emphasis on production rather than marketing.

The Congress has taken steps to make the federal dairy program more responsive to market forces, particularly by reducing the support price. However, a recent GAO report showed that U.S. dairy prices still exceed world prices, limiting the price competitiveness of U.S. dairy products in the world market. To counteract this situation, the Congress established the Dairy Export Incentive Program, which subsidizes exports of dairy products and cost about $135 million in fiscal year 1993.

GAO has recommended making the dairy program more responsive to market forces by tying the support price to the market, thereby effectively reducing the support price. USDA reported that it has been estimated that the support price would have to be reduced to between $6 and $7 per hundred-weight to achieve significant exports of U.S. dairy products. GAO has also advocated that support prices be lowered gradually to allow producers who have made production decisions based on the program a period of time to adjust to the new prices.

To address these issues, the Congress may wish to reduce the dairy support price by $0.80 annually over five years, beginning in fiscal year 1995. This would eliminate the need for the Dairy Export Incentive Program and the producer assessments supporting the program.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	120	263	289	257	252
Outlays	120	263	289	257	252

Source: Congressional Budget Office.

Related GAO Product

Dairy Industry: Potential for and Barriers to Market Development (GAO/RCED-94-19, December 21, 1993).

GAO Contact

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Option: Milk Marketing Orders

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Account	Commodity Credit Corporation Fund (12-4336)
Spending type	Direct
Budget subfunction	Farm income stabilization
Framework theme	Reassess objectives

The major objectives of federal dairy policies have been to ensure an adequate supply of milk and to support dairy farmers' incomes. Two interrelated programs to accomplish these objectives are milk marketing orders and price supports. Milk is the only commodity with both order pricing and price support programs.

Marketing orders set minimum prices that must be paid for milk for fluid use, based on the manufacturing grade price plus differentials that are unique to each of the 38 federal milk marketing orders. GAO has reported that the premise for federal milk marketing orders is outdated. A need no longer exists to encourage and maintain a locally produced supply of milk. Milk is now produced in all regions of the country, and technologies are available to transfer it, either as fluid or in a form to be later reconstituted as fluid, should local shortages develop.

Given the change in underlying conditions for this program, the Congress may wish to consider reducing the federal role in milk pricing by taking actions such as phasing out the pricing provisions of the milk marketing orders. The probable effect of this change would be reduced purchases under the federal price support program as farmers cut production in response to reduced prices. Eliminating these provisions could also ultimately reduce the price of dairy products to consumers.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	149	166	173	119	62
Outlays	149	166	173	119	62

Source: Congressional Budget Office.

Related GAO Product

Milk Marketing Orders: Options for Change (GAO/RCED-88-9, March 21, 1988).

GAO Contact

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Option: U.S. Department of Agriculture Crop Price Supports

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Account	Commodity Credit Corporation Fund (12-4336)
Spending type	Direct
Budget subfunction	Farm income stabilization
Framework theme	Redefine beneficiaries

The Commodity Credit Corporation has supported the incomes of farmers since the 1930s. Concerned about large payments to farm operators and the overall cost of federal farm programs, the Congress established an annual limit on farm payments of $50,000 per person in 1970. Persons are broadly defined to be individuals, members of joint operations, or entities such as limited partnerships, corporations, associations, trusts, and estates. Payment limits again became a significant issue in the mid-1980s when individuals reorganized their farming operations to receive larger total federal payments.

In 1987, legislative amendments allowed a person to receive up to $100,000 of farm payments per year. These amendments, intended to tighten the payment limit requirements and reduce program costs, have had a very limited effect because

- farmers were allowed to reorganize their operations, within a specified time period, to avoid reductions in total payments;
- USDA required only 50 percent of a corporation's ownership to provide significant contributions of personal labor or active personal management to meet the requirement that the corporation be actively engaged in farming; and
- farmers were allowed to qualify for payments from up to three eligible entities.

If the Congress wants to further tighten payment limits as a means to reduce program costs, one option would be to limit payments to $50,000 per individual and only provide benefits to individuals actively engaged in farming. This limit would apply whether the payments are earned from the individual's own operations or are attributed to them as owners in one or more entities.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	51	91	106	105	104
Outlays	51	91	106	105	104

Source: Congressional Budget Office.

Related GAO Products

Agriculture Payments: Number of Individuals Receiving 1990 Deficiency Payments and the Amounts (GAO/RCED-92-163FS, April 27, 1992).

Agriculture Payments: Effectiveness of Efforts to Reduce Farm Payments Has Been Limited (GAO/RCED-92-2, December 5, 1991).

Farm Payments: Basic Changes Needed to Avoid Abuse of the $50,000 Payment Limit (GAO/RCED-87-176, July 20, 1987).

GAO Contact

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Option: Farm Lands Eligible for Deficiency Payments

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Account	Commodity Credit Corporation Fund (12-4336)
Spending type	Direct
Budget subfunction	Farm income stabilization
Framework theme	Improve efficiency

In the Food, Agriculture, Conservation, and Trade Act of 1990, the Congress provided farmers with greater ability to respond to market signals by allowing them to plant crops other than their designated program crops on up to 25 percent of their base acres. This flexibility was one of the principal elements in the overall strategy of the 1990 farm legislation aimed at improving U.S. competitiveness in the international agriculture market. The Agricultural Reconciliation Act of 1990 reduced government expenditures for agriculture programs by providing for the elimination of income support payments on 15 percent of base acres, even when the designated program crops are planted on these acres. Taken together, these laws enacted provisions which are commonly called "flex acres."

GAO has reported on a number of options for increasing the use of flex acres, all of which would require legislative change. Options include (1) increasing the number of normal flex acres ineligible for deficiency payments beyond the current 15-percent level, (2) increasing the number of optional flex acres, with corresponding decreases in deficiency payments, for those acres planted in alternative crops, or (3) permitting farmers to grow alternative crops on more than 25 percent of their base acres while continuing to receive deficiency payments on 75 percent of the acres. While the first option would clearly reduce government costs, the second and third options could also reduce costs as farmers increase their use of optional flex acres. All three options would allow farmers to participate in USDA's commodity programs while continuing to increase their incentive to respond to the needs of the marketplace.

One approach to implement the first option, above, would be to raise the proportion of each farmer's base acreage ineligible for deficiency payments from 15 percent to 25 percent.

Five-Year Savings

Dollars in millions	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	444	781	927	915	892
Outlays	444	781	927	915	892

Source: Congressional Budget Office.

Related GAO Product

Commodity Programs: Flex Acres Enhance Farm Operations and Market Orientation (GAO/RCED-94-76, December 30, 1993).

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Option: Rice Program

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Account	Commodity Credit Corporation Fund (12-4336)
Spending type	Direct
Budget subfunction	Farm income stabilization
Framework theme	Reassess objectives

Despite legislative reforms in 1985 and 1990 to reduce the government costs and increase the U.S. share of the world rice market, overall government costs have remained high—averaging $1 billion per year between 1986 and 1992. And, government payments as a percentage of producers' total rice revenues nearly doubled from 27 percent in 1982 through 1984 to 50 percent in 1992. On average, the government payments were about 7 percent above producers' full cost of production between 1988 and 1990. Moreover, the U.S. share of the world rice market dropped from 24 percent in 1980 to 15 percent in 1992.

GAO has reported that government costs remain high because of (1) continued high deficiency payments, (2) the addition of the marketing loan provision in 1985 that allows producers to repay their loans at either the loan rate or USDA's calculated world price, whichever is lower, and (3) several export promotion initiatives.

In light of these problems, the Congress may wish to consider ways to move rice producers towards greater market orientation. To reduce producer dependency, the Congress could lower the target price, incorporate marketing loan gains into the deficiency payment calculation, eliminate the 50/85 program, and reduce export assistance. The 50/85 program allows producers to plant 50 percent of their rice acres and receive deficiency payments on 85 percent of their acres. The Congress may also want to consider implementation options such as phasing out payments to producers over a number of years.

To illustrate the savings from a market-based approach, the following table shows the savings that could be achieved if Congress chose to eliminate the availability of the 50/85 program for rice producers.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	6	10	19	33	27
Outlays	6	10	19	33	27

Source: Congressional Budget Office.

Related GAO Product

Rice Program: Government Support Needs to Be Reassessed (GAO/RCED-94-88, May 26, 1994).

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Option: Peanut Program

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Account	Commodity Credit Corporation Fund (12-4336)
Spending type	Direct
Budget subfunction	Farm income stabilization
Framework theme	Reassess objectives

Since the Great Depression of the 1930s, USDA has administered a program to control the supply of U.S. peanuts and between 1982 and 1989 the peanut program has guaranteed producers a minimum price for their crops that substantially exceeds the world market price. However, peanut farming, like other agricultural operations, has undergone massive changes since that time. Smaller farms have been consolidated to form larger-scale operations resulting in fewer farms with greater amounts of peanut quota. For example, in 1991, fewer than 22 percent of the U.S. peanut producers controlled over 80 percent of the quota. Thus, the peanut program has provided substantial benefits to a small number of producers who hold most of the quota. GAO has reported that from 1982 to 1992, the annual quota support price averaged $697 per ton, while the estimated cost of producing peanuts averaged $463 per ton, this difference resulted in an average minimum net return of 51 percent to producers. Moreover, because the quota support price is required to increase each year when costs go up, but not decrease when costs go down, the gap between quota support prices and costs has generally increased over time. GAO also found that 68 percent of all quota owners in 1988, who held 56 percent of the quota, rented their quotas to others.

GAO has raised a concern that most costs of the peanut program are paid for by U.S. consumers. Economic studies and GAO's analysis estimate that the peanut program adds, on average, anywhere from $314 million to $513 million each year to consumers' costs of buying peanuts. About 76 to 88 percent of the cost is transferred directly to producers as income, and the remaining portion represents a social welfare loss that reflects inefficiencies in the program's use or allocation of resources.

USDA spends millions of dollars yearly to operate the peanut program. In supporting the peanut program from 1986 through 1990, USDA incurred average annual costs of $34.4 million.

GAO has recommended that the Congress restructure the peanut support program by making it more responsive to market forces. GAO believes that this change could achieve savings to the government and consumers.

However, CBO did not develop a 5-year estimate of savings for this option. CBO noted that the world market price for commodities fluctuates considerably. In addition, the effects of any such changes in the peanut program on other commodities and programs are difficult to measure.

Related GAO Product

Peanut Program: Changes Are Needed to Make the Program Responsive to Market Forces (GAO/RCED-93-18, February 8, 1993).

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Option: Reduce or Eliminate Funding for the Market Promotion Program

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Accounts	Commodity Credit Corporation Fund (12-4336)
Spending type	Direct
Budget subfunction	Farm income stabilization
Framework theme	Redefine beneficiaries

The Market Promotion Program (MPP) is an export promotion program that subsidizes overseas promotional activities for U.S. agricultural products. The MPP was authorized under the 1990 Food, Agriculture, Conservation, and Trade Act to assist U.S. agricultural exporters, particularly those faced with unfair trading practices abroad. Payments are made to partially offset the costs of market building and commodity promotion undertaken by state-related, private nonprofit, and private profit-making firms. The Foreign Agricultural Service (FAS) operates MPP through 65 not-for-profit associations that either run the programs themselves or pass funds through to other entities.

FAS has no assurance that MPP funds are supporting additional promotional activities rather than simply replacing company/industry funds. Moreover, FAS has not provided adequate guidance or oversight in targeting MPP funds to smaller and new-to-export industries which are less likely to supplant them.

In fiscal year 1995, MPP funding was reduced to $84.5 million from the budgeted level of $110 million. The Congress also encouraged USDA to better target assistance and to promote greater participation from small companies and other entities. The results of this direction are not yet known. In addition, this type of promotion is among the few unaffected by the GATT Uruguay Round. Nevertheless, additional future savings could be achieved if the Congress further reduced or eliminated the program.

Based on our examinations of the MPP since its inception, GAO believes that the program should target small, generic new-to-export companies and not extend assistance to large companies. Further, we believe that participants should be graduated out of the program within 5 years. With these changes, Congress could cut MPP funding by an additional $35 million, to a $50 million level for fiscal years 1996 through 2000.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	7	50	60	60	60
Outlays	7	50	60	60	60

Source: Congressional Budget Office.

Related GAO Products

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, March 25, 1993).

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Option: Reduce Funding for the Export Credit Guarantee Programs

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Primary agency	Department of Agriculture
Accounts	Commodity Credit Corporation Loans Program Account (12-1336) Commodity Credit Corporation Fund (12-4336)
Spending type	Direct
Budget subfunction	Farm income stabilization
Framework theme	Reassess objectives

Under the U.S. Department of Agriculture (USDA), the Export Credit and Intermediate Export Credit Guarantee Programs are major agricultural export promotion programs. The main objective of these programs is to increase U.S. agricultural exports. Based on legislative requirements, USDA makes a total of $5.7 billion in government loan guarantees available each year to foreign country buyers of U.S. agricultural commodities.

GAO has reported that since the programs began in the 1980s, and as of May, 1993, the government had paid out approximately $4.2 billion because of loan repayment defaults by foreign country buyers. Past operations of the programs have incurred high costs because USDA had provided a large amount of guarantees to high-risk countries, such as Iraq and the former Soviet Union. Guarantees had been extended to such high-risk countries because of market development reasons and foreign policy considerations. Extending guarantees and increasing exposure to new and existing high-risk participants will result in higher program costs.

GAO is unaware of any empirical evidence that demonstrates that the export credit guarantee programs resulted in increased agricultural exports. Also, there is a history of poor management control of these programs, principally because USDA officials viewed the export credit guarantee programs as "commercial" programs that are subject to the normal controls that exist for commercial sales transactions.

Through legislative direction and other encouragement, USDA has taken some action to improve management of the programs, but additional steps are still necessary. Thus, from this perspective, the Congress may wish to reduce the programs' budgets.

To illustrate how savings would be achieved, the Congress could choose to reduce lending authority to $3.3 billion, about $750 million less than assumed in CBO's baseline. The estimate of savings assumes that the entire reduction would derive from lowering the value of loan guarantees for sales to the world's most risky borrowers receiving guarantees. Congress may wish to consider whether such beneficiary countries might be more appropriately assisted with food aid programs. However, this would offset some or all of the savings cited in the following table.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	–229	244	230	222	214
Outlays	–229	244	230	222	214

Source: Congressional Budget Office.

Related GAO Products

U.S. Department Of Agriculture: Issues Related to the Export Credit Guarantee Programs (GAO/T-GGD-93-28, May 6, 1993).

Loan Guarantees: Export Credit Guarantee Programs' Costs Are High (GAO/GGD-93-45, December 22, 1992).

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370 Commerce and Housing Credit

- National Oceanic Atmospheric Administration research fleet modernization
- Centralize servicing for Rural Housing and Community Development Service's single-family housing loans
- Opportunities to reduce the cost of the 2000 decennial census

Option: National Oceanic Atmospheric Administration Research Fleet Modernization

Authorizing committees	Commerce, Science and Transportation (Senate) Commerce (House)
Appropriations subcommittees	Commerce, Justice, State and the Judiciary and Related Agencies (Senate and House)
Primary agency	Department of Commerce
Account	Fleet Modernization, Shipbuilding and Conversion (13-1457)
Spending type	Discretionary
Budget subfunction	Other advancement of commerce
Framework theme	Improve efficiency

In 1993, we reported on the National Oceanic and Atmospheric Administration's (NOAA) fleet modernization plan. As GAO said, the plan calls for replacing NOAA's existing fleet of old and technologically obsolete ships that support NOAA's programs in fisheries research, oceanographic research, and hydrographic charting and mapping. NOAA's modernization plan envisions the need for 24 new or refurbished vessels over a 15-year period at an estimated cost of $1.9 billion (in fiscal year 1995 dollars).

Studies by GAO, the Vice President's National Performance Review, and others have recommended that NOAA experiment with greater use of private sector vessel services as potentially cost-effective alternatives to continued reliance on NOAA vessels. In response, NOAA is taking action to experiment with vessel contracting and chartering alternatives and to assess the results of these experiments in the context of fleet modernization needs and costs. If experience with contracting and chartering alternatives shows that leasing is a cost-effective alternative to NOAA vessels, future costs associated with NOAA's modernization plans could be reduced. However, CBO cannot develop a savings estimate at this time because the costs of leasing have not been determined.

Related GAO Products

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

Ocean Research Vessels: NOAA Fleet Modernization Plan (GAO/T-RCED-94-52, October 21, 1993).

GAO Contact

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Option: Centralize Servicing for Rural Housing and Community Development Service's Single-Family Housing Loans

Authorizing committees	Banking, Housing and Urban Affairs (Senate) Banking and Financial Services (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate and House)
Primary agency	Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget function	Mortgage Credit
Framework theme	Improve efficiency

The Rural Housing and Community Development Services (RHCDS) makes housing and farm loans to rural Americans who cannot otherwise obtain them on reasonable terms.[1] RHCDS services about 675,000 single-family housing borrowers via some 1,700 county offices. Servicing single-family housing loans accounts for about 35 percent of the work load in these offices. An additional 90,000 loans are administered by a loan servicing company from a central location.

The private sector has used centralized servicing of housing loans for many years to reduce servicing costs. Under centralized servicing, the servicing rights to loans are sold and the purchasing organization collects monthly payments, establishes escrows for property taxes and insurance, manages delinquencies, and provides credit counseling on the lender's behalf.

One option to reduce RHCDS administrative costs would be to expand in house RHCDS centralized servicing and reduce servicing in county offices. RHCDS borrowers could still obtain loans under current arrangements, but loan servicing would be performed at a separate, central location. Borrowers would receive the same services provided by the private sector loan servicing industry by phone or mail—as well as services unique to RHCDS, such as periodic review of interest credit agreements, application of moratoriums, and appeals. Another option would be private sector contracting. Alternatively, a combination of these means could be used—allowing the public and private sectors to compete for loan servicing privileges.

[1]RHCDS was formed from the rural housing section of Farmers Home Administration (FmHA) and the Community Facilities Division of the Rural Development Administration.

To illustrate the savings that could be achieved from this option, GAO has found that centralizing these services could result in closing 742 county offices unable to support 2 staff years. Closing these offices would produce about $171 million in outlay saving from the associated full-time employee reductions in fiscal years 1999 and 2000 as shown in the table that follows.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	0	0	0	64	85
Outlays	0	0	0	57	85
Savings from the 1995 funding level adjusted for inflation					
Budget authority	0	0	0	75	104
Outlays	0	0	0	67	104

Source: Congressional Budget Office.

Related GAO Products

U.S. Department of Agriculture: Centralized Servicing for FmHA Single-Family Housing Loans (GAO/RCED-93-231BR, September 23, 1994).

U.S. Department of Agriculture: Centralized Servicing for FmHA Single-Family Housing Loans (GAO/T-RCED-94-121, February 9, 1994).

GAO Contact

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Option: Opportunities to Reduce the Cost of the 2000 Decennial Census

Authorizing committees	Governmental Affairs (Senate) Government Reform and Oversight (House)
Appropriations subcommittees	Commerce, Justice, State, and the Judiciary and Related Agencies (Senate and House)
Primary agency	Department of Commerce
Account	Periodic Censuses and Programs (13-0450)
Spending type	Discretionary
Budget subfunction	Other advancement of commerce
Framework theme	Improve efficiency

Since 1992, GAO reports and testimonies have identified opportunities to reduce the cost of the 2000 Decennial Census without decreasing accuracy. The Census Bureau estimated that using the 1990 census-taking approach without modification could cost about $4.8 billion in current dollars for the 2000 Decennial Census.

GAO believes the Census Bureau should pursue several cost-saving options currently being evaluated in the Census Bureau's 1995 Census Test. Census Bureau estimates suggest that the use of these options could result in savings of about $1 billion for the 2000 Decennial Census. These options are as follows:

- Promoting a higher mail response rate by simplifying and streamlining the census questionnaire and using a strategy of multiple mail contacts. A simplified, more user-friendly questionnaire could promote better response rates by reducing the time and effort needed for respondents to understand and complete the form. Additionally, tests have shown that the use of multiple contacts, such as targeted reminder cards and second mailings improve response rates.
- Using the Postal Service to identify vacant and invalid addresses during the mailing of questionnaires to avoid costly and unnecessary follow-up efforts. In order to maximize savings, the Census Bureau must ascertain the earliest point at which vacant and invalid housing units are accurately classified to eliminate futile follow-up on them.
- Gathering data on only a sample of those households not responding by mail, rather than attempting to contact them all in person. Savings estimates would vary according to the initial percentage of households responding by mail and the sampling rate and method selected. The Census Bureau is contemplating following-up on approximately a 30-percent sample.

The Census Bureau estimates that it could have saved between $700 million and $800 million of the $2.6 billion that it spent on the 1990 Decennial Census if it had incorporated the procedures listed above. Almost all of these savings would have occurred in fiscal year 1990. With inflation and workload adjustments, this figure should be somewhat higher for fiscal year 2000.

In addition, by eliminating or reducing costly labor-intensive address list operations through greater reliance on the Postal Service and local communities, the Census Bureau estimates that it could save as much as $188 million for the 2000 Census. This cooperative effort will be permissible under 1995 legislation (Public Law 103-430). To realize these savings, the Census Bureau estimates that it will incur costs of about $5.1 million in each of fiscal years 1995, 1996, and 1997. However, thereafter, the Bureau will generate net savings of $13.5 million in fiscal year 1998, between $129.4 million and $179.4 million in fiscal year 1999, and another $10.8 million in fiscal year 2000.

The dollar amounts above are Census Bureau estimates. The Census Bureau will have to spend several million each year to prepare for the changes. The Census Bureau should require $950 million less in budget authority to accomplish the 2000 decennial census than it would without implementing this proposal. Because of the unique nature of the census, a cyclical program with the majority of spending occurring once every 10 years, estimates against a fiscal year 1995 frozen baseline would be inappropriate. CBO estimates that using sampling for nonresponse follow-up and incorporating other changes for the 2000 Decennial Census could result in the following savings.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	–5	–5	–5	–5	950
Outlays	–5	–5	–5	–5	846

Source: Congressional Budget Office.

Related GAO Products

Decennial Census: 1995 Test Census Presents Opportunities to Evaluate New Census-Taking Methods (GAO/T-GGD-94-136, September 27, 1994).

Decennial Census: Promising Proposals, Some Progress, But Challenges Remain (GAO/T-GGD-94-80, January 26, 1994).

Decennial Census: Test Design Proposals Are Promising, But Fundamental Reform Is Still at Risk (GAO/T-GGD-94-12, October 7, 1993).

Decennial Census: Focused Action Needed Soon to Achieve Fundamental Breakthroughs (GAO/T-GGD-93-32, May 27, 1993).

Decennial Census: Fundamental Reform Jeopardized by Lack of Progress (GAO/T-GGD-93-6, March 2, 1993).

Transition Series: Commerce Issues (GAO/OCG-93-12TR, December 1992).

Decennial Census: 1990 Results Show Need for Fundamental Reform (GAO/GGD-92-94, June 9, 1992).

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400 Transportation

- Eliminate or transfer Interstate Commerce Commission functions
- Cargo preference laws: their costs and effects
- Increase federal fees paid by foreign-flagged cruise ships
- Increase state share of state-supported intercity rail passenger service
- Reduce or eliminate Amtrak subsidies
- Targeting military airport program funds within the national airport system
- Enhance Department of Transportation's oversight of its university research

Option: Eliminate or Transfer Interstate Commerce Commission Functions

Authorizing committees	Commerce, Science and Transportation (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Transportation (Senate and House)
Primary agency	Interstate Commerce Commission
Account	Salaries and Expenses (30-0100)
Spending type	Discretionary
Budget subfunction	Ground transportation
Framework theme	Reassess objectives

GAO testified both last year and earlier this year on the Interstate Commerce Commission's (ICC) remaining rail and motor carrier regulatory activities and discussed options for eliminating some functions while transferring others to different agencies. GAO noted that while the ICC's rail regulatory responsibilities were widely viewed as necessary, much of the resources devoted to trucking regulatory activities, most notably tariff and operating certificate filings, seemed unnecessary in a largely deregulated environment and could be eliminated. The Congress adopted GAO's position in this regard and legislation was enacted to eliminate most of these activities and downsize the agency. ICC's budget for fiscal year 1995 was reduced about $13.5 million as a result of these changes.

Other ICC activities, we found more problematic. The remaining trucking activities could be continued at ICC or transferred to another federal agency such as the Department of Transportation or the Federal Trade Commission, but the budgetary savings would likely be minimal. There was widespread agreement among shippers and carriers that there was a continuing need to adjudicate rail disputes and protect the interests of captive rail shippers in market dominance situations. Remaining rail responsibilities could be merged with the Federal Maritime Commission and merger review activities could be transferred to the Department of Justice.

One option the Congress may want to consider would eliminate all remaining motor carrier functions, except safety and insurance activities, which would be transferred. The Congress may also want to transfer ICC's rail and merger activities to other federal agencies, such as the Department of Transportation and the Justice Department. While GAO believes that efficiencies could be achieved through these transfers, future cost reductions would depend on which functions are continued and at what level of effort. CBO estimates that eliminating remaining regulation of motor carriers, except in the areas of safety and insurance, would achieve the following savings.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	6	9	9	9	9
Outlays	5	9	9	9	9
Savings from the 1995 funding level adjusted for inflation					
Budget authority	6	10	11	11	11
Outlays	5	10	11	11	11

Source: Congressional Budget Office.

Related GAO Products

Interstate Commerce Commission: Key Issues Need to be Addressed in Determining Future of ICC's Regulatory Functions (GAO/T-RCED-94-261, July 12, 1994).

Interstate Commerce Commission: Transferring ICC's Rail Regulatory Responsibilities May Not Achieve Desired Results (GAO/T-RCED-94-222, June 9, 1994).

Trucking Transportation: Information on Handling of Undercharge Claims (GAO/RCED-93-208FS, August 30, 1993).

Trucking Deregulation: Proposed Sunset of ICC's Trucking Regulatory Responsibilities (GAO/RCED-87-107, April 23, 1987).

GAO Contact

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Option: Cargo Preference Laws: Their Costs and Effects

Authorizing committees	Commerce, Science and Transportation (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Multiple
Primary agency	Multiple
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	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. This guarantees a minimum amount of business for the U.S. merchant fleet. This promotes other sectors of the maritime industry because U.S.-flagged 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.

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. Four federal agencies—the Departments of Defense, Agriculture, and Energy, and the Agency for International Development—are responsible for more than 99 percent, by tonnage, of 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 because U.S.-flagged vessels generally charge more to carry cargo than their foreign-flagged counterparts. The average is about $710 million per year when the costs associated with the Persian Gulf War are included.

The effect of cargo preference laws on the U.S. merchant marine industry is mixed. On one hand, the share of international oceanborne cargo carried by U.S. vessels has declined despite cargo preference laws because most oceanborne international cargo is not subject to cargo preference laws. On the other hand, these laws appear to have a substantial impact on the U.S. merchant marine industry by providing incentive for vessels to remain in the U.S. fleet. In the absence of preference cargo, the equivalent of up to two-thirds, by tonnage, of the 165 U.S.-flagged vessels engaged in international trade would leave the fleet, either by reflagging to achieve cost savings or by ceasing to operate if they are not competitive. This would directly impact about 6,000 U.S. shipboard jobs.

To summarize, if the Congress eliminated cargo preference laws, federal agencies would save hundreds of millions of dollars yearly, but the U.S. fleet would be significantly smaller and shipboard jobs would be lost. If the laws were eliminated, the following savings could be achieved.[1]

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	555	555	555	555	555
Outlays	410	525	545	545	550
Savings from the 1995 funding level adjusted for inflation					
Budget authority	580	595	605	620	635
Outlays	430	560	590	610	625

Source: Congressional Budget Office.

Related GAO Products

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

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

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

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

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[1]The termination of cargo preference requirements for all government-sponsored cargoes would probably cause additional defaults on outstanding loans guaranteed by the Maritime Administration. CBO estimates that such defaults would increase mandatory spending by between $4 million and $30 million over the next several years.

Option: Increase Federal Fees Paid by Foreign-Flagged Cruise Ships

Authorizing committees	Multiple
Primary agency	Multiple
Spending type	Direct
Framework theme	Redefine beneficiaries

The multibillion dollar passenger cruise market in the United States is almost exclusively served by foreign-flagged cruise vessels. With the exception of two, there are no oceangoing U.S.-flagged cruise vessels of any substantial size. Access to the U.S. market is, therefore, a very lucrative privilege, which is made even more so because the vessels and their crews pay virtually no corporate or personal U.S. income tax.

To ensure adequate shoreside facilities and that the safety, health, and economic welfare of U.S. passengers and property, and our immigration laws are adequately safeguarded, the federal government has enacted laws and dispersed responsibility for their administration and enforcement throughout several departments and agencies of the federal government. This raises the question of whether the foreign-flagged cruise vessels, which are enjoying substantial profits as a result of their monopoly, are paying their fair share of the cost to the federal government of ensuring that this extremely valuable U.S. market operates safely and in accordance with our laws and regulations.

GAO has reported that seven agencies provide services to foreign-flagged cruise vessels. All but two of the agencies' revenues, in the form of charges for these services, were about equal to or exceeded their costs to provide the services. However, the Coast Guard spent about $1.4 million dollars to provide such services as vessel safety inspections, pollution prevention, port safety, marine investigations, and search and rescue, and charged no fees in fiscal year 1993. The Immigration and Naturalization Service (INS) spent about $7.3 million dollars on passenger inspections but collected only about $700,000 because passengers are exempt from its fee when arriving at a port of entry in the U.S. on a cruise originating in Canada, Mexico, a territory or possession of the United States, or any adjacent island.

The Congress may wish to extend fees for these services to the remaining agencies. The table that follows reflects the revenues that would result if the Congress enacted legislation (1) authorizing the Coast Guard to charge fees for its services and (2) lifting the Immigration and Naturalization Service exemption.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Added receipts					
Option: Coast Guard fees	0.4	1.1	1.4	1.4	1.4
Option: Lifting INS Exemption	38	38	38	38	38

Source: Congressional Budget Office.

Related GAO Product

None

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Option: Increase State Share of State-Supported Intercity Rail Passenger Service

Authorizing committees	Commerce, Science and Transportation (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Transportation (Senate and House)
Primary agency	Department of Transportation
Account	Grants to National Railroad Passenger Corporation (69-0704)
Spending type	Discretionary
Budget subfunction	Ground transportation
Framework theme	Redefine beneficiaries

The Rail Passenger Service Act allows Amtrak to initiate and/or operate intercity rail service, known as 403(b) service, that is financially supported by the states. As of September 1994, Amtrak had contracts with 8 states to operate this service over 15 routes.[2] In fiscal year 1993, section 403(b) service accounted for about 14 percent of Amtrak's ridership. Under the provisions of the Rail Passenger Service Act, the states pay 45 percent of section 403(b) service operating losses in the first year of operation and 65 percent of these losses in subsequent years. For service that began prior to 1989, states reimburse Amtrak for short-term avoidable losses, while for service that began after 1989, states reimburse Amtrak for long-term avoidable losses. States also pay 50 percent of the capital equipment costs (primarily depreciation and interest) associated with section 403(b) service. Any costs (capital or operating) not paid by states are absorbed by Amtrak.

In fiscal year 1993, Amtrak absorbed about $82 million in losses on section 403(b) services. This included about $78 million in operating costs and $4 million in capital costs. Amtrak absorbed such costs as heavy maintenance and overhaul of cars and locomotives, accident repairs, and an allocated portion of fixed costs (e.g., yard and station operation and various overhead costs). The individual states paid about $26 million. Amtrak absorbs other costs from the service as well. For example, Amtrak's use of equipment for section 403(b) service precludes its use on other intercity routes where there could be equipment shortages. Amtrak is not reimbursed for these lost opportunity costs.

Although the savings will be relatively minor in comparison to Amtrak's overall losses, the Congress may want to increase the state share of

[2]These states were Alabama, California, Illinois, Michigan, Missouri, New York, North Carolina, and Wisconsin.

existing or new 403(b) service losses and Amtrak has expressed a willingness to do so. For example, currently participating states are responsible for paying a percentage of either short-term or long-term avoidable losses. If participating states were all required to reimburse Amtrak for fully-allocated losses, GAO estimates that the states' reimbursement would increase by about $82 million in the first year (using fiscal year 1994 data). If the federal subsidy to Amtrak were reduced by a comparable amount, the following savings would apply.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	82	82	82	82	82
Outlays	82	82	82	82	82
Savings from the 1995 funding level adjusted for inflation					
Budget authority	82	85	88	91	94
Outlays	82	85	88	91	94

Source: Congressional Budget Office.

Related GAO Product

Intercity Passenger Rail: Amtrak's Financial and Operating Conditions Threaten Its Longterm Viability (GAO/RCED-95-71, February 6, 1995).

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Option: Reduce or Eliminate Amtrak Subsidies

Authorizing committees	Commerce, Science and Transportation (Senate) Transportation and Infrastructure (House)
Appropriations subcommittees	Transportation (Senate and House)
Primary agency	Department of Transportation
Account	Grants to National Railroad Passenger Corporation (69-0704)
Spending type	Discretionary
Budget subfunction	Ground transportation
Framework theme	Reassess objectives

Amtrak's financial condition has rapidly deteriorated, creating a situation that could seriously affect Amtrak's ability to provide high-quality passenger rail service nationwide. Amtrak and the federal government need to make key long-term decisions concerning the quality and extent of passenger rail service and the government's commitment to subsidize such operations. Recognizing Amtrak's need for financial support, the Congress has provided significant funding since Amtrak began operating in 1971. Since 1990, however, Amtrak's federal subsidy has not covered the gap between operating expenses and revenues. Total operating deficits have exceeded federal operating subsidies by $175 million. This imbalance occurred because passenger revenues have been lower than projected while expenses have been higher than expected. Furthermore, over the past 8 years, Amtrak has steadily reduced its working capital by $371 million.

Over the next few years, Amtrak will face difficult and costly challenges that could impede its financial recovery. At the same time, Amtrak faces few opportunities to substantially increase revenues. The challenges include (1) maintaining its aging passenger cars, (2) modernizing the Beech Grove, Indiana, repair facility, which services all equipment used outside the Northeast Corridor, (3) modernizing its locomotive and passenger car fleet, acquiring high-speed trains, and continuing rail improvements in the Northeast Corridor, (4) negotiating, by 1996, new operating agreements with the freight railroads, which own about 97 percent of the track over which Amtrak operates, (5) negotiating labor issues and work rules with Amtrak's union employees, and (6) incurring higher costs for employee health benefits and environmental clean-up.

To address its financial and operating problems, in December 1994, Amtrak announced plans to cut expenses by restructuring its route network and improving productivity. However, even if fully implemented, these actions will not solve Amtrak's longer-term problems. Revenues will continue to fall short of expenses on most routes; and Amtrak projects that operating expenses will exceed operating revenues and the federal subsidy by $1.3 billion between 1996 and the year 2000. If Amtrak is to continue nationwide operations at the present level, enhance the quality and reliability of its service, and improve its overall financial condition, it will require substantial operating and capital funding. In European countries where competitive conditions are more conducive to rail travel, intercity rail passenger service has received substantial public funding. In the United States, only a few well-traveled routes may ever generate sufficient revenues to cover operating costs.

If substantially increasing the level of federal funding for Amtrak, especially for capital investments, is not possible in today's budgetary environment, then now may be the time for the Congress to consider refocusing Amtrak's efforts and reducing its current route system, retaining service in locations where Amtrak can carry the largest number of passengers in the most cost-effective manner. The Congress could consider establishing a temporary commission similar to the military base closure commission to restructure Amtrak's operations and reduce the route network so that efficient and quality service can be provided within the available funding from all sources—federal, state and local, and private.

Savings estimates can not be made until specific proposals are developed regarding changes in Amtrak operations and routes. These estimates cannot be made because restructuring proposals would affect the amount of the reduction in federal funding for Amtrak's capital, operating, and Northeast corridor activities.

Related GAO Products

Intercity Passenger Rail: Financial and Operating Conditions Threaten Amtrak's Long-term Viability (GAO/RCED-95-71, February 6, 1995).

Amtrak: Key Decisions Need to Be Made in the Face of Deteriorating Financial Condition (GAO/T-RCED-94-186, April 13, 1994).

Amtrak: Deteriorated Financial Condition and Costly Future Challenges (GAO/T-RCED-94-145, March 23, 1994).

Amtrak: Financial Condition Has Deteriorated and Future Costs Make Recovery Difficult (GAO/T-RCED-94-155, March 17, 1994).

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Option: Targeting Military Airport Program Funds Within the National Airport System

Authorizing committees	Science, Commerce and Transportation (Senate) Transportation and Infrastructure (House)
Primary agency	Department of Transportation
Account	Grants-in-aid for airports (Airport and Airway Trust Fund) (69-8106)
Spending type	Discretionary/Direct
Budget subfunction	Air transportation
Framework theme	Improve efficiency

The Airport Improvement Program (AIP), the nation's multibillion dollar program for planning and improving its airport infrastructure, includes legislatively established funding categories for specific uses. One such category—the Military Airport Program (MAP)—was established in 1990 to assist current and former military airports located in congested metropolitan areas in converting to viable civilian airports.

However, 9 of the 12 airports selected by the Federal Aviation Administration (FAA) to participate in the MAP do not meet key legislatively established program goals. Five of the airports are not located in congested air traffic areas and are unlikely to increase capacity, either in major metropolitan areas or systemwide. Nine airports selected had already been operating as joint or civilian airports for 10 or more years, and many of these already had the types of facilities in place that the program was designed to develop.

The Congress could suspend participation in MAP or limit participation to those airports (1) that are located in FAA-defined congested areas and (2) where first civilian use occurred after the 1988 and later base closure and realignment processes. If the Congress did not wish airports participating in MAP to receive AIP funding in lieu of MAP funding, it would need to specify this. However, because any or all of these actions could result in a redirection rather than a reduction in AIP spending, the Congress would also need to reduce the contract authority and obligation limitation for the AIP to achieve savings. Given past problems in selecting airports that meet legislatively-established criteria, one option the Congress could consider is eliminating the MAP. The following estimate assumes a reduction in AIP funding of 2.5 percent each year, which is about the amount that corresponds to MAP funding.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	55	57	59	61	63
Outlays	7	22	29	33	35
Savings from the 1995 funding level adjusted for inflation					
Budget authority	55	57	59	61	63
Outlays	7	23	31	36	39

Source: Congressional Budget Office.

Related GAO Product

Airport Improvement Program: The Military Airport Program Has Not Achieved Intended Impact (GAO/RCED-94-209, June 30, 1994).

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Option: Enhance 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	Ground, air, water, and other transportation
Framework theme	Improve efficiency

The Department of Transportation (DOT) conducts a variety of 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 are 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 between fiscal years 1988 and 1993, DOT does not have an integrated plan to ensure that sponsored research is needed to meet departmental goals. In addition, since each of DOT's eight operating administrations conducts and tracks its own research, there is no effective mechanism to ensure that duplicative and/or unnecessary research is not conducted by more than one administration. Finally, a lack of oversight on some university awards led to overcharges of almost $450,000 and unpaid cost-sharing totalling $3 million in a sample of awards 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.

GAO has recommended that DOT complete the development of a departmentwide database to track the purpose and costs associated with each university research award and evaluate the operating administrations' processes to ensure that they have adequate policies and procedures to carry out their responsibilities for monitoring awards.

CBO does not disagree that improved monitoring and oversight of DOT's university research can reduce outlays. 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. 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).

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450 Community and Regional Development

- Reappraise rural development programs

Option: Reappraise Rural Development Programs

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House) Small Business (House)
Appropriations subcommittees	Agriculture, Development, and Related Agencies (Senate) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (House)
Primary agency	Department of Agriculture Department of Housing and Urban Development Department of Commerce Environmental Protection Agency Small Business Administration
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Area and regional development
Framework theme	Improve efficiency

Since 1989 GAO reports and testimonies has commented on problems in federal rural development programs. Most recently we found that approximately 689 federal programs provide rural development assistance in the United States. The web of federal policies and regulations that accompany these programs makes the delivery of assistance inefficient. The programs are complex and narrowly focused, generally making them difficult and costly to use. The programs are an inefficient surrogate for a single federal policy for economic development in rural areas.

To improve the effectiveness and efficiency of federal assistance to rural areas the Congress may wish to consider program consolidations where these are appropriate. It is difficult to estimate the savings that would be achieved from program consolidations because savings would depend in large part on the programs the Congress consolidates and the extent to which overlapping or duplicative activities could be eliminated. However, the President has proposed in his fiscal year 1996 budget to authorize U.S. Department of Agriculture (USDA) state directors to shift funds between 14 existing USDA rural development loan and grant programs, which would remain separate.

Using the proposed baseline in the President's fiscal year 1996 budget the administration reported that $42 million in administrative savings could be achieved from this change due to accompanying reductions in USDA headquarters' FTEs. CBO's estimate of cost savings—using fiscal year 1995 data—would be achieved over 5 years and are reflected in the table below.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	11	13	15	16	17
Outlays	11	13	14	16	17
Savings from the 1995 funding level adjusted for inflation					
Budget authority	15	20	24	29	33
Outlays	14	19	24	28	33

Source: Congressional Budget Office.

Related GAO Products

Rural Development: Patchwork of Federal Programs Needs to Be Reappraised (GAO/RCED-94-165, July 28, 1994).

Rural Development: Profile of Rural Areas (GAO/RCED-93-40FS, April 29, 1993).

Rural Development: America Faces Many Challenges (GAO/RCED-93-35, November 20, 1992).

Rural Development: Federal Programs That Focus on Rural America and Its Economic Development (GAO/RCED-89-56BR, January 19, 1989).

GAO Contact

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500 Education, Training, Employment, and Social Services

- Employment and training programs

Option: Employment and Training Programs

Authorizing committees	Multiple
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agencies	Multiple
Accounts	Multiple
Spending type	Discretionary/Direct
Budget subfunction	Training and employment
Framework theme	Improve efficiency

The challenges posed by increased global competition and a changing economy call for a renewed commitment to invest in the American workforce. The federal government's effort to meet this commitment has been to increase investment in a wide array of programs that target people experiencing barriers to employment and to add other new programs that target particular groups. Since 1992 GAO has issued 9 reports and testimonies commenting on federal employment and training programs. Most recently, GAO identified a total of 163 federal programs and funding streams providing employment and training assistance. These programs are spread across 15 departments and independent agencies with a total budget of about $20 billion.

GAO's analysis of programs that target the economically disadvantaged showed that those programs had similar goals, often served the same categories of people, and provided many of the same services using separate, yet parallel, delivery structures. This overlap can add unnecessary administrative costs at each level of government—federal, state, and local.

The amount of any savings from consolidating programs will depend on how many programs are included, the degree and kind of reductions, and the level of federal involvement. To illustrate the potential for savings from consolidating employment and training programs, one option would be to consolidate the following programs for the economically disadvantaged: Job Training Partnership Act (JTPA) IIA Training Services for the Disadvantaged Adult, JTPA IIA State Education Programs, JTPA IIA Incentive Grants, Job Opportunities and Basic Skills Program, Food Stamp Employment and Training, Family Self-Sufficiency Program, Vocational Education—Basic State Programs, Educational Opportunity Centers, and Student Literacy and Mentoring Corps. A second option could consolidate the following programs for dislocated workers: JTPA Economic Dislocation and Worker Adjustment Assistance (EDWAA) (substate allotment), JTPA EDWAA (governor's discretionary), JTPA EDWAA (Secretary's discretionary), JTPA Defense Conversion Adjustment Program, JTPA Clean Air Employment Transition Assistance, JTPA Defense Diversification, Trade Adjustment Assistance—Workers, Vocational Education—Demonstration Centers for the Training of Dislocated Workers, and the Transition Assistance Program.

Consolidating similar employment and training programs would result in administrative efficiencies to the states as well as improved opportunities to reduce fragmentation and increase effectiveness in service delivery. In consolidating programs, the Congress would also want to consider the implications for federal agency workloads and responsibilities. In anticipation of the benefits states will receive, funding for the programs included could be reduced 10 percent each year as part of the consolidation. Savings from the consolidations are shown in the two sets of tables below which separately identify direct and discretionary spending.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Option: Disadvantaged adults					
Direct spending					
Savings from the 1995 funding level adjusted for inflation					
Budget authority	120	120	120	120	120
Outlays	100	110	110	110	110

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Option: Disadvantaged adults					
Discretionary spending					
Savings from the 1995 funding level					
Budget authority	210	210	210	210	210
Outlays	120	190	210	220	230
Savings from the 1995 funding level adjusted for inflation					
Budget authority	210	220	220	230	240
Outlays	120	190	210	220	230

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Option: Dislocated workers					
Direct spending					
Savings from the 1995 funding level adjusted for inflation					
Budget authority	30	30	30	30	30
Outlays	20	30	30	30	20

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Option: Dislocated workers					
Discretionary spending					
Savings from the 1995 funding level					
Budget authority	130	130	130	130	130
Oulays	70	130	130	130	130
Savings from the 1995 funding level adjusted for inflation					
Budget authority	130	140	140	150	150
Outlays	70	130	140	140	140

Source: Congressional Budget Office.

Related GAO Products

Multiple Employment Training Programs: Major Overhaul Is Needed to Create a More Efficient, Customer-Driven System (GAO/T-HEHS-95-70, February 6, 1995).

Multiple Employment Training Programs: Major Overhaul Is Needed to Reduce Costs, Streamline the Bureaucracy, and Improve Results (GAO/T-HEHS-95-53, January 10, 1995).

Multiple Employment Training Programs: Overlap in Programs Raises Questions About Efficiency (GAO/HEHS-94-193, July 11, 1994).

Multiple Employment Training Programs: Major Overhaul Is Needed (GAO/T-HEHS-94-109, March 3, 1994).

Multiple Employment Training Programs: Overlapping Programs Can Add Unnecessary Administrative Costs (GAO/HEHS-94-80, January 28, 1994).

Multiple Employment Training Programs: Conflicting Requirements Hamper Delivery of Services (GAO/HEHS-94-78, January 28, 1994).

Multiple Employment Programs: National Employment Training Strategy Needed (GAO/T-HRD-93-27, June 18, 1993).

Multiple Employment Programs (GAO/HRD-93-26R, June 15, 1993).

Multiple Employment Programs (GAO/HRD-92-39R, July 24, 1992).

GAO Contact

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550 Health

- Overall strategy to address prescription drug fraud and Medicaid fraud
- Medicaid: States use illusory approaches to shift program costs to the federal government
- Medicaid formula: fairness could be improved
- Adopt automated drug utilization reviews

Option: Overall Strategy to Address Prescription Drug Fraud and Medicaid Fraud

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of Health and Human Services
Account	Grants to States for Medicaid (75-0512)
Spending type	Direct
Budget subfunction	Health care services
Framework theme	Improve efficiency

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, keeping the extras 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 market the drugs; and entrepreneurs 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. By 1996, Medicaid's drug benefit is expected to cost $10 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. 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. HHS generally agrees with the GAO findings and recommendation but believes it is not feasible unless new staff resources can be identified and allocated.

The Congress should 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 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: A Program Highly Vulnerable to Fraud (GAO/T-HEHS-94-106, February 25, 1994).

Medicaid Drug Fraud: Federal Leadership Needed to Reduce Program Vulnerabilities (GAO/HRD-93-118, August 2, 1993).

Medicaid Prescription Drug Diversion: A Major Problem, But State Approaches Offer Some Promise (GAO/T-HRD-92-48, July 29, 1992).

GAO Contact

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Option: Medicaid: States Use Illusory Approaches to Shift Program Costs to the Federal Government

Authorizing committees	Finance (Senate) Commerce (House)
Primary agency	Department of Health and Human Services
Account	Grants to States for Medicaid (75-0512)
Spending type	Direct
Budget subfunction	Health care services
Framework theme	Reassess objectives

GAO has raised a concern that Michigan, Texas, and Tennessee have 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.

The practices that involve payments to state-owned facilities will be restricted by Omnibus Budget Reconciliation Act of 1993 provisions that limit such payments to unreimbursed Medicaid and uninsured costs. 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 monies 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: States Use Illusory Approaches to Shift Program Costs to the Federal Government (GAO/HEHS-94-133, August 1, 1994).

Medicaid: The Texas Disproportionate Share Program Favors Public Hospitals (GAO/HRD-93-86, March 30, 1993).

GAO Contact

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Option: Medicaid Formula: Fairness Could Be Improved

Authorizing committees	Finance (Senate) Commerce (House)
Primary agency	Department of Health and Human Services
Account	Grants to States for Medicaid (75-0512)
Spending type	Direct
Budget subfunction	Health care services
Framework theme	Reassess objectives

The Medicaid program provides medical assistance to current and recent beneficiaries of the Aid to Families with Dependent Children (AFDC) program, low-income people who receive Supplemental Security Income, and certain other low-income individuals. The federal share of the program costs varies with the per capita income of the state. 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 in which we identify ways in which the fairness of federal grant formulas could be improved. With respect to Medicaid GAO believes the fairness of the matching formula could be improved by replacing the per capita income factor with the number of people living below the official poverty line and the total taxable resources of the state, and by reducing the minimum federal share to 40 percent. These changes could reduce federal reimbursements by reducing the federal share in states providing the most generous benefits that have the fewest low-income people in need and a greater ability to fund benefits from state resources. It also 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. 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

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	4,600	5,100	5,700	6,200	6,900
Outlays	4,600	5,100	5,700	6,200	6,900

Source: Congressional Budget Office.

Related GAO Product

Medicaid Formula: Fairness Could Be Improved (GAO/T-HRD-91-5, December 7, 1990).

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Option: Adopt Automated Drug Utilization Reviews

Authorizing committees	Finance (Senate) Commerce (House)
Primary agency	Department of Health and Human Services
Account	Grants to States for Medicaid (75-0512)
Spending type	Direct
Budget subfunction	Health care services
Framework theme	Improve efficiency

Amendments to Title XIX of the Social Security Act required states to implement drug utilization review (DUR) programs in the Medicaid programs by January 1, 1993. Under DUR, states must review Medicaid prescriptions to (1) determine whether they are appropriate, medically necessary, and not likely to result in adverse medical reactions and (2) identify fraud, waste, and abuse. Reviews must be performed prospectively (before prescriptions are filled) and retrospectively (on a quarterly basis after prescriptions are filled).

The amendments do not require states to use statewide automated systems to implement prospective reviews, although at the time of GAO's review about two-thirds of the states had or were planning to acquire these systems. Automated systems for prospective DUR reviews reduce Medicaid program costs in two ways: (1) by cancelling prescriptions that are inappropriate drug therapy or are instances of waste, fraud and/or abuse and (2) by reducing hospitalizations due to adverse drug reactions (which account for from 3 percent to 28 percent of Medicaid hospitalizations). Automated systems are also cost-effective from the states' perspective. For example, Maryland's total one-time costs for system acquisition were about $165,000, and its initial 10-month operating costs were about $472,000. In contrast, data show that the value of Medicaid prescriptions cancelled during this period exceeded $6.7 million.

Although most states and the District of Columbia either operate or plan to implement automated prospective DUR system within the next few years, about one-third have no plans to acquire these systems. The Health Care Financing Administration could influence the remaining states to do so by providing additional information about system use and benefits. If these remaining states were required to acquire the systems, savings would result from lower Medicaid grant payments.

CBO could not prepare a 5-year estimate of savings at this time without more complete national data on Medicaid prescriptions. For example, initial GAO work shows that having the DUR system resulted in millions of dollars in cancellations of prescriptions which could have been inappropriate or fraudulent or which presented possible adverse medical reactions. However, since the automated systems are relatively new, data are not yet available to show precisely how many of these cancellations resulted in budgetary savings.

Related GAO Product

Prescription Drugs: Automated Prospective Review Systems Offer Potential Benefits for Medicaid (GAO/AIMD-94-130, August 5, 1994).

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570 Medicare

- Teaching hospitals' Medicare payments
- Medicare payment safeguards
- Medicare payments for high technology procedures
- Change the health maintenance organization rate-setting method for Medicare

Option: Teaching Hospitals' Medicare Payments

Authorizing committees	Finance (Senate) Commerce (House) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Health and Human Services
Account	Federal Hospital Insurance Trust Fund Account (20-8005)
Spending type	Direct
Budget subfunction	Medicare
Framework theme	Improve efficiency

Medicare's Prospective Payment System pays hospitals with graduate medical education programs at rates higher than those other hospitals receive for treating the same conditions. The higher payments are to compensate for the higher costs teaching hospitals incur, which are thought to be due to such factors as increased diagnostic testing, increased number of procedures performed, and higher staffing ratios. The teaching adjustment is based on the ratio of interns and residents per bed and currently is set at a 7.65-percent increase in payments for each 0.1 increment in the ratio.

In 1989, GAO found that the present adjustment factor was too high because it did not explicitly consider all relevant teaching hospital costs and did not accurately measure all cost factors. Based on its analysis, GAO found that the adjustment should be no higher than 6.26 percent and could be as low as 3.73 percent. The 6.26-percent rate would better measure factors explicitly recognized by the current formula. The 3.73-percent rate expands on the current formula to reflect additional factors that affect teaching hospital costs.

CBO's analysis of Medicare's indirect medical education payments discusses rates of 6 percent and 3 percent. Savings for those rates are reflected in the following table.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Option: Reduce to 6-percent adjustment factor					
Outlays	930	1,120	1,200	1,280	1,360
Option: Reduce to 3-percent adjustment factor					
Outlays	2,600	3,150	3,350	3,600	3,800

Source: Congressional Budget Office.

Related GAO Product

Medicare: Indirect Medical Education Payments Are Too High (GAO/HRD-89-33, January 5, 1989).

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Option: Medicare Payment Safeguards

Authorizing committees	Finance (Senate) Commerce (House) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services and Education (Senate and 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 subfunctions	Health and Medicare
Framework theme	Improve efficiency

GAO has issued many reports on the problem of high Medicare costs, and we have identified ways in which costs could be reduced. Recently, we reported that when Medicare pays contractors to process claims, one of the contractors' responsibilities is to ensure that Medicare only pays claims for covered services that are medically necessary and appropriate and for which Medicare is the primary payer. Such activities are referred to as program safeguards.

The funding that contractors receive to review each claim has declined by over 20 percent since 1989. In response, contractors apply fewer or less stringent payment controls, and claims are paid that otherwise would not be. Historically, payment safeguards have returned $10 in savings for each dollar expended on them. GAO believes additional program safeguard funding is necessary to better protect the program against erroneous payments.

Although CBO does not disagree that increasing program safeguards can reduce Medicare outlays, it does not make budget estimates of such savings. This is because it is difficult to establish a clear connection between increases in administrative activities and savings that might accrue through changes in the operations of the program. In addition, even if such a connection can be established, the magnitude of savings attributable to such changes is not certain enough for budget scorekeeping purposes.

Related GAO Products

Medicare: High Spending Growth Calls for Aggressive Action (GAO/T-HEHS-95-75, February 6, 1995).

Medicare Claims: High Risk Series (GAO/HR-95-8, February 1995).

Medicare: Adequate Funding and Better Oversight Needed to Protect Benefit Dollars (GAO/T-HRD-94-59, November 12, 1993).

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, February 28, 1989).

Medicare and Medicaid: Budget Issues (GAO/T-HRD-87-1, January 29, 1987).

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Option: Medicare Payments for High Technology Procedures

Authorizing committees	Finance (Senate) Commerce (House) Ways and Means (House)
Primary agency	Department of Health and Human Services
Account	Federal Supplementary Medical Insurance Trust Fund (20-8004)
Spending type	Direct
Budget subfunction	Medicare
Framework theme	Improve efficiency

When new medical technologies first come into use, costs are often high because of such factors as initial capital expenditures and low utilization rates. Medicare payment rates are normally set during this period. Over time, the costs related to a particular technology often go down as equipment is improved, utilization increases, and experience with the technology results in efficiencies. However, Medicare does not have a process for routinely and systematically assessing these factors and its payment rates often remain at the original high levels.

Over the years, 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, selected items of durable medical equipment, and intraocular lenses. GAO believes that establishment of a systematic process for periodically evaluating the reasonableness of Medicare payment rates as technologies mature would result in significant program savings.

Savings have not been estimated because this option encompasses all procedures that are now or will be described as mature. Any savings would depend on the particular technologies for which Medicare payment rates are reduced.

Related GAO Product

Medicare: Excessive Payments Support the Proliferation of Costly Technology (GAO/HRD-92-59, May 27, 1992).

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Option: Change the Health Maintenance Organization Rate-Setting Method for Medicare

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of Health and Human Services
Account	Federal Supplementary Medical Insurance Trust Fund (20-8004)
Spending type	Discretionary/Direct
Budget subfunction	Medicare
Framework theme	Improve efficiency

Hoping to take advantage of the potential cost savings associated with health maintenance organizations (HMO), Congress created the Medicare risk contract program. Under this program, HMOs are paid a flat fee (or capitation rate) for each Medicare beneficiary enrolled. Capitation rates are set at 95 percent of the estimated average cost per Medicare beneficiary in the fee-for-service sector, adjusted for enrollees' demographic factors—age, sex, Medicaid eligibility, and whether or not the enrollee is in an institution such as a nursing home. These risk adjustments are designed to reduce "favorable selection," which occurs when HMO enrollees are healthier than Medicare beneficiaries in the fee-for-service sector.

The risk contract program has not achieved its goal of reducing Medicare costs because the Health Care Financing Administration's (HCFA) risk adjustment methodology has proved insufficient to prevent HMOs from benefiting from favorable selection. Because the healthier HMO enrollees are more than 5 percent less expensive to care for than comparable fee-for-service beneficiaries, HCFA has paid HMOs more for beneficiaries' treatment than it would have spent had those same beneficiaries remained in the fee-for-service sector.

GAO identified four alternative risk adjustment mechanisms that—unlike HCFA's current system—would adjust payments based on the health status of enrollees. For example, one of these risk adjustors (clinical indicators) would adjust capitation rates for the presence or absence of a particular chronic health condition, such as heart disease or cancer. Any of these four risk adjustment methods could reduce favorable selection and allow Medicare to achieve cost savings under the risk contract program. GAO recommended that HCFA conduct demonstration projects on each of these options to gather more practical risk adjustment experience.

A 5-year estimate of savings cannot be developed at this time. Insufficient data have been collected to determine the specific impact of proposed risk assessment methods on Medicare costs and on HMO participation in the risk contract program.

Related GAO Product

Medicare: Changes to HMO Rate-Setting Method Are Needed to Reduce Program Costs (GAO/HEHS-94-119, September 2, 1994).

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600 Income Security

- Fees for non-Aid to Families with Dependent Children child support enforcement services
- Automated child support enforcement systems
- Funding for state automated welfare systems
- Unified risk-based food safety system
- Consolidation of U.S. Department of Agriculture food assistance programs

Option: Fees for Non-Aid to Families With Dependent Children Child Support Enforcement Services

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of Health and Human Services
Account	Family Support Payments to States (75-1501)
Spending type	Direct
Budget subfunction	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 Aid to Families with Dependent Children (AFDC) and non-AFDC 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 1993, non-AFDC caseloads and costs have risen 302 percent and 520 percent, respectively. States have exercised their discretion to charge only minimal application and service fees and, thus, are doing little to recover the federal government's 66-percent share of program costs. In fiscal year 1993, for example, state fee practices returned $31 million of the $985 million spent to provide non-AFDC services.

Since 1992, GAO has reported on opportunities to defray some of the costs of child support programs. Based on this work, we believe that mandatory application fees should be dropped and that states should charge a minimum percentage service fee on successful collections for non-AFDC families. Application fees are administratively burdensome, and a service fee would ensure that families are charged only when the service has been successfully performed.

If the Congress wishes to fully recover the administrative costs of the program, a 15-percent service fee on collections for non-AFDC families would be necessary. States could charge a 15-percent service fee for collection for non-AFDC cases. The following savings assume states would be able to implement this option beginning October 1, 1995.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	800	870	940	1,010	1,090
Outlays	800	870	940	1,010	1,090

Source: Congressional Budget Office.

Related GAO Products

Child Support Enforcement: Families Could Benefit From Stronger Enforcement Program (GAO/HEHS-95-2, December 27, 1994).

Child Support Enforcement: Federal Efforts Have Not Kept Pace With Expanding Program (GAO/T-HEHS-94-209, July 20, 1994).

Child Support Enforcement: Opportunity to Defray Burgeoning Federal and State Non-AFDC Costs (GAO/HRD-92-91, June 5, 1992).

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Option: Automated Child Support Enforcement Systems

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of Health and Human Services
Account	Family Support Payments to States (75-1501)
Spending type	Direct
Budget subfunction	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 Aid to Families with Dependent Children (AFDC) and non-AFDC clients, 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 on the effective planning, design, and operation of automated systems. The federal government provides enhanced funding to develop these automated child support enforcement systems by paying up to 90 percent of states' development costs. The states estimate it will cost over $1.2 billion to develop these systems.

The 90-percent federal funding participation rate is limited to expenditures through fiscal year 1995. Thereafter, the federal government will reimburse states' costs to develop and operate these systems at the 66-percent rate established for administrative expenses. Despite past problems such as lack of OCSE oversight and its limited action to correct known problems with state systems, all states indicate their system development will be complete in time to meet this deadline. However, it is doubtful all states will meet this deadline.

Most of the increased child support collections estimated by the states due to their automated systems are for non-AFDC clients. The non-AFDC clients will benefit from these increased collections but pay little towards the cost of administering their cases. Expenditures for non-AFDC cases totaled over $985 million for fiscal year 1993. The Congress provided the states broad discretion to help defray costs of providing these services for non-AFDC clients, but most states charge only minimal application fees of less than $25 and few states charge optional fees for federal and state offsets.

GAO work shows that beginning in fiscal year 1996, the states could spend up to $300 million annually to operate automated systems for child support enforcement, including $198 million of federal funds. Given the states' broad discretion to help defray costs, the Congress could choose to reduce the federal funding participation rate for development and operation of automated child support enforcement systems from 66 percent to the 50-percent rate now common for such costs in other programs, such as AFDC and Food Stamps. CBO estimates that doing so would produce savings of $72 million each year as shown in the table below.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	72	72	72	72	72
Outlays	72	72	72	72	72

Source: Congressional Budget Office.

Related GAO Products

Child Support Enforcement: Timely Action Needed to Correct System Development Problems (GAO/IMTEC-92-46, August 13, 1992).

Child Support Enforcement: Opportunity to Defray Burgeoning Federal and State Non-AFDC Costs (GAO/HRD-92-91, June 5, 1992).

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Option: Funding for State Automated Welfare Systems

Authorizing committees	Agriculture (Senate and House) Finance (Senate) Ways and Means (House)
Appropriations subcommittees	Labor, HHS, Education and Related Agencies (Senate) Agriculture (House)
Primary agency	Departments of Agriculture and Health and Human Services
Account	Multiple
Spending type	Discretionary/Direct
Budget subfunction	Food and nutrition; other income security
Framework theme	Improve efficiency

From 1984 to 1992, federal agencies contributed over $6.8 billion, and $1.8 billion prior to 1984, to help fund development and operation of automated information systems for welfare and welfare-related programs. These programs include: Aid to Families with Dependent Children (AFDC), Medicaid, Food Stamps, Child Support Enforcement, Job Opportunities and Basic Skills Training (JOBS), Child Care, and Child Welfare Services and Foster Care/Adoption Assistance. The Department of Health and Human Services (HHS) administers all of these programs except Food Stamps, which the Department of Agriculture (USDA) administers. As part of their program administration responsibilities, these departments are to monitor the development of automated information systems to ensure that the systems meet federal requirements.

Ineffective oversight of state-developed systems has led to millions of dollars being spent on systems that do not work and/or do not meet federal requirements. For example, one state spent $51 million on a system that could not be implemented as planned because important user requirements were not incorporated into its original design. Although most states are developing integrated systems incorporating three welfare programs (AFDC, Medicaid, and Food Stamps), HHS and USDA each spend time and money to independently review state systems, which results in contradictory directions given to different states. Moreover, even though millions of dollars have been spent, the benefits of these systems in reducing administrative costs and mistakes have not been determined.

Many states operate separate systems for separate programs even though the welfare clients the programs serve are often the same. In addition, many states are now in the process of upgrading or replacing existing systems or developing or planning to develop new systems, which they estimate could cost at least $2.2 billion from 1993 to 1999.

Savings could be achieved and the usefulness of state automated systems improved if problems were identified and corrected early in the system development process. In addition, more of these systems could be integrated, with the federal government providing model systems to further reduce development costs. If it chooses, the Congress could slow HHS' and USDA's development funding to reflect the anticipated savings resulting from early detection of problems in the system development process, greater system integration, and greater use of models to guide state development efforts. However, a savings estimate for this option cannot be developed at this time. This is because yearly data on states' future spending for automated systems development in the affected welfare and welfare-related programs are not available.

Related GAO Products

Automated Welfare Systems: Historical Costs and Projections (GAO/AIMD-94-52FS, February 25, 1994).

Welfare Programs: Ineffective Federal Oversight Permits Costly Automated System Problems (GAO/IMTEC-92-29, May 27, 1992).

GAO Contact

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Option: Unified Risk-Based Food Safety System

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House)
Appropriations subcommittees	Agriculture, Rural Development, and Related Agencies (Senate) Agriculture, Rural Development, Food and Drug Administration, and Related Agencies (House)
Primary agency	Department of Agriculture
Accounts	Multiple
Spending type	Discretionary
Budget subfunction	Other income security
Framework theme	Improve efficiency

GAO has issued more than 10 reports and testimonies on food safety issues. This work leads us to conclude that the federal system to ensure the safety and quality of the nation's food—at an annual cost of $1 billion a year—is inefficient and outdated and does not adequately protect the consumer against food-borne illness. GAO has reported that as many as 12 different agencies administering over 35 different laws oversee food safety. As a result, the current food safety system suffers from overlapping and duplicative inspections, poor coordination, inefficient allocation of resources, and outdated inspection procedures.

One option that might be considered to improve the effectiveness, efficiency, and uniformity of the federal food safety system would be the consolidation of activities in a new single food safety agency. This agency would administer a uniform set of food safety laws and implement a food inspection system. GAO has recommended the establishment of a system based on the Hazard Analysis and Critical Control Point system (HACCP). A HACCP-based system relies on building safety into food production. The current federal food safety system is not HACCP-based and tries to ensure food safety primarily through end-product testing. GAO has recommended that responsibility for implementing HACCP-based systems be delegated to the industry, with the government retaining an oversight role. GAO believes that this will result in cost savings to the government by eliminating some federal food inspections.

However, a 5-year estimate of savings cannot be developed at this time. The amount of any savings from consolidating food inspection programs will depend on how many programs are included, the degree and kind of reductions, and the level of federal involvement. In addition, the amount of savings will depend on the extent to which administrative cost savings are used to offset overall program costs.

Related GAO Products

Food Safety: Fundamental Changes Needed to Improve Monitoring of Unsafe Chemicals in Food (GAO/T-RCED-94-311, September 28, 1994).

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

Food Safety: A Unified, Risk-Based Food Safety System Needed (GAO/T-RCED-94-223, May 25, 1994).

Meat Safety: Inspectors' Ability to Detect Harmful Bacteria Is Limited (GAO/T-RCED-94-228, May 24, 1994).

Food Safety: Risk-Based Inspections and Microbial Monitoring Needed for Meat and Poultry (GAO/RCED-94-110, May 19, 1994).

Food Safety: Risk-Based Inspections and Microbial Monitoring Needed for Meat and Poultry (GAO/T-RCED-94-189, April 19, 1994).

Meat Safety: Inspection System's Ability to Detect Harmful Bacteria Remain Limited (GAO/T-RCED-94-123, February 10, 1994).

Food Safety: A Unified Risk-Based System Needed to Enhance Food Safety (GAO/T-RCED-94-71, November 4, 1993).

Food Safety: Building a Scientific, Risk-Based Meat and Poultry Inspection System (GAO/T-RCED-93-22, March 16, 1993).

Food Safety: Inspection of Domestic and Imported Meat Should Be Risk-Based (GAO/RCED-93-10, February 18, 1993).

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

GAO Contact

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Option: Consolidation of U.S. Department of Agriculture Food Assistance Programs

Authorizing committees	Agriculture, Nutrition, and Forestry (Senate) Agriculture (House) Economic and Educational Opportunities (House)
Primary agency	Department of Agriculture
Account	Emergency Food Assistance Program (12-3635)
Spending type	Direct
Budget subfunction	Farm income stabilization
Framework theme	Improve efficiency

GAO first reported on the need to improve federal food assistance programs in 1978. More recently, we have said that nearly all federal domestic food assistance is provided under the U.S. Department of Agriculture's 14 food assistance programs. These programs have been established by a series of congressional acts and amendments since the mid-1940s. The 14 programs provide food and food-related assistance to about 39 million persons, including infants and children, the disabled, pregnant and breast-feeding women, and the elderly. The federal cost of providing food assistance has dramatically increased from about $664 million in fiscal year 1967 to an estimated $37 billion in fiscal year 1994.

The multiple program approach used to provide food assistance has created a complex administrative structure involving different nutritional goals and funding schemes and encompassing various combinations of federal, state, and local agencies that, for the most part, dispense food benefits independently. This complex administrative structure, based on separate authorizing legislation and regulations, causes possible overlaps of benefits and functions, inconsistent administrative procedures, and confusion for applicants who attempt to find out what programs are available to them. As a result, the current multiprogram approach may not be the most effective way of providing federal food assistance.

To illustrate how savings could be achieved, consolidating three commodity food assistance programs—The Emergency Food Assistance Program (TEFAP), Soup Kitchens/Food Banks (SKFB) and Commodity Supplemental Food Program (CSFP)—would streamline federal, state, and local administration of the food assistance programs that rely on USDA commodities. Currently, TEFAP and SKFB can provide similar commodities for use in households through food pantries. Combining these three programs would give states more flexibility to target resources more effectively. At the same time, a consolidated commodity distribution program would continue to support USDA's price support and surplus removal activities. It would also continue to (1) provide an outlet for commodities if surpluses arise and (2) make commodities available to help victims of natural disasters.

In anticipation of the increased flexibility and reduced administrative burdens states would gain from consolidating the programs, the Congress may want to consider eliminating some funding currently provided the states for administering the programs. The table below reflects the savings that could be achieved from this option.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	41	43	44	46	47
Outlays	37	43	44	46	47

Source: Congressional Budget Office.

Related GAO Products

Food Assistance Programs (GAO/RCED-95-115R, February 28, 1995).

Food Assistance: USDA's Multiprogram Approach (GAO/RCED-94-33, November 24, 1993).

Food Assistance: Nutritional Conditions and Program Alternatives in Puerto Rico (GAO/RCED-92-114, July 21, 1992).

Federal Domestic Food Assistance Programs—A Time for Assessment and Change (CED-78-113, June 13, 1978).

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650 Social Security

- Social Security continuing disability reviews

Option: Social Security Continuing Disability Reviews

Authorizing committees	Finance (Senate) Ways and Means (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Health and Human Services
Accounts	Federal Disability Insurance Trust Fund (20-8007) Federal Hospital Insurance Trust Fund (20-8005) Federal Supplementary Medical Insurance Trust Fund (20-8004) Federal Old-Age and Survivors Insurance Trust Fund (20-8006)
Spending type	Discretionary/Direct
Budget subfunctions	Social Security and Medicare
Framework theme	Improve efficiency

Between 1987 and 1993, the Social Security Administration (SSA) completed less than half the disability reviews required by law. Such reviews often find that Disability Income beneficiaries are no longer disabled and may be removed from the rolls. According to SSA, the lack of continuing disability reviews in 1990 through 1993 will cost the trust funds about $1.4 billion through 1997.

While SSA has taken steps to improve the payoff from the disability reviews it does perform, GAO believes that SSA should continue to examine ways to increase the number of such reviews and to make existing reviews more efficient. Although CBO does not disagree that increasing disability reviews can reduce outlays, it does not make budget estimates of such savings. This is because it is difficult to establish a clear connection between increases in administrative activities and savings that might accrue through changes in the operations of a program. In addition, even if such a connection can be established, the magnitude of savings attributable to such changes is not certain enough for budget scorekeeping purposes.

Related GAO Products

Social Security: New Continuing Disability Review Process Could Be Enhanced (GAO/HEHS-94-118, June 27, 1994).

Social Security: Increasing Number of Disability Claims and Deteriorating Service (GAO/HRD-94-11, November 10, 1993).

Social Security Disability: SSA Needs to Improve Continuing Disability Program (GAO/HRD-93-109, July 8, 1993).

Social Security: SSA's Processing of Continuing Disability Reviews (GAO/T-HRD-93-9, March 9, 1993).

GAO Contact

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700 Veterans Benefits and Services

- Cost sharing for veterans' long-term care
- Construction of veterans' medical care facilities
- Veterans' disability compensation for non-service connected diseases

Option: 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	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. In fiscal year 1990, 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.

The Congress may wish to consider increasing cost sharing for VA nursing home care by (1) adopting cost-sharing requirements similar to those imposed by most state veterans' homes and (2) implementing an estate recovery program similar to those operated by many states under their Medicaid programs. If VA recovered either 25 percent or 50 percent of its costs of providing nursing home and domiciliary care through a combination of cost sharing and estate recoveries, the savings shown in the following table would apply.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Option: Recovery of 25 percent of costs					
Budget authority	247	171	49	–137	–415
Outlays	243	182	67	–110	–374
Option: Recovery of 50 percent of costs					
Budget authority	633	493	411	287	102
Outlays	637	500	423	305	129

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Option: Recovery of 25 percent of costs					
Budget authority	296	321	362	424	517
Outlays	294	318	356	415	503
Option: Recovery of 50 percent of costs					
Budget authority	593	643	724	848	1033
Outlays	589	635	712	830	1006

Source: Congressional Budget Office.

Related GAO Products

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, August 12, 1992).

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Option: Construction of Veterans' Medical Care Facilities

Authorizing committees	Veterans' Affairs (Senate and House)
Appropriations subcommittees	VA, HUD, and Independent Agencies (Senate and House)
Primary agency	Department of Veterans Affairs
Account	Construction (36-0110)
Spending type	Discretionary
Budget subfunction	Hospital and medical care for veterans
Framework theme	Reassess objectives

Annually, Department of Veterans Affairs (VA) spends about $500 million on construction of medical care facilities. Currently, VA is planning to build new hospitals in Honolulu, Hawaii; East Central Florida; and northern California. Construction of additional VA capacity would add to the surplus of hospital beds that already exists in many of the communities where VA plans to build hospitals. Many states, including Florida and Hawaii, are implementing or considering health care reforms that would ensure health insurance coverage for virtually all residents, including veterans. Where such universal health care coverage is adopted, the demand for VA hospital care could decrease by about 50 percent, and demand for outpatient care could decrease by about 40 percent.

The Congress may wish to limit construction of additional VA health care facilities until reforms of health care financing systems, both nationally and in individual states, and VA eligibility take shape. If the Congress limits both major and minor projects, CBO estimates that the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	422	416	412	408	402
Outlays	19	73	149	197	248
Savings from the 1995 funding level adjusted for inflation					
Budget authority	423	442	448	463	478
Outlays	19	75	154	240	323

Source: Congressional Budget Office.

Related GAO Products

Veterans' Health Care: Potential Effects of Health Care Reforms on VA's Major Construction Program (GAO/HRD-T-93-19, May 6, 1993).

Veterans' Health Care: Potential Effects of Health Financing Reforms on Demand for VA Services (GAO/HRD-T-93-12, March 31, 1993).

Veterans' Health Care: Potential Effects of Health Reforms on VA Construction (GAO/T-HRD-93-7, March 3, 1993).

VA Health Care: Actions Needed to Control Major Construction Cost (GAO/HRD-93-75, February 26, 1993).

Transition Series: Veterans' Affairs Issues (GAO/OCG-93-21TR, December 1992).

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Option: Veterans' Disability Compensation for Non-Service Connected Diseases

Authorizing committees	Veterans' Affairs (Senate and House)
Primary agency	Department of Veterans Affairs
Account	Compensation (36-0153)
Spending type	Direct
Budget subfunction	Income security for veterans
Framework theme	Redefine beneficiaries

During 1986, VA paid approximately $1.7 billion in disability compensation payments to veterans with diseases neither caused nor aggravated by military service. In 1994 CBO reported that about 250,000 veterans were receiving about $1.5 billion annually in VA compensation for these diseases. GAO's study of five countries shows that they do not compensate veterans under these circumstances.

The Congress may wish to reconsider whether such diseases should be compensated as service-connected disabilities. If disability compensation payments to veterans with non-service connected, disease-related disabilities were eliminated in future cases, the following savings would apply.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	38	79	124	172	225
Outlays	34	71	119	167	244

Source: Congressional Budget Office.

Related GAO Products

Disabled Veterans Programs: U.S. Eligibility and Benefit Types Compared With Five Other Countries (GAO/HRD-94-6, November 24, 1993).

VA Benefits: Law Allows Compensation for Disabilities Unrelated to Military Service (GAO/HRD-89-60, July 31, 1989).

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750 Administration of Justice

- Justice's use of private counsel to collect civil debt

Option: Justice's Use of Private Counsel to Collect Civil Debt

Authorizing committees	Judiciary (Senate and House) Governmental Affairs (Senate) Government Reform and Oversight (House)
Appropriations subcommittees	Commerce, Justice, State, and Judiciary (Senate) Commerce, Justice, State (House)
Primary agency	Department of Justice
Account	Salaries and expenses, General legal activities (15-0128)
Spending type	Discretionary
Budget function	Federal litigative and judicial activities
Framework theme	Improve efficiency

Many GAO reports have documented the problems of civil fines and penalties and the collection of these debts. As GAO has reported over the years the volume of nontax delinquent civil debt cases in U.S. Attorney Offices (USAO) has fluctuated. Case overload in some offices resulted in delays in working civil debt collection cases, which had a negative effect on collection efforts. As a result, in 1986 the Congress authorized a private counsel debt collection pilot program which allows the Attorney General to contract with private counsel firms in up to 15 jurisdictions to litigate and collect these debts. Private firms are paid on a contingency fee basis.

USAOs and private attorneys have handled different sizes and types of civil debt cases, making assessments of their relative cost effectiveness unclear. However, private counsel firms have cost effectively collected debts that would otherwise have gone uncollected and have been successful in reducing case backlogs. For example, from implementation of the pilot program through fiscal year 1992, private counsel firms in seven districts collected $9.2 million at a cost of $2.4 million and closed 9,728 cases. As of September 30, 1992, these firms continued to work on 15,791 cases. The fluctuating nature of the caseload seems to make the flexibility of a contractual arrangement more desirable than hiring permanent USAO collection staff.

Because of the success of the pilot program and the flexibility it provides in addressing debt collection, GAO believes that the Congress should consider allowing the Attorney General to contract with private counsel firms to collect delinquent nontax civil debt on an as-needed basis in all districts. Further, the requirement for participation of a fixed number of firms in each district should be dropped to allow the participation of only the number of firms needed to do the work. These actions would enhance debt collection efforts.

CBO agrees that savings can be achieved through the use of private counsel. However, CBO could not prepare an estimate of savings from this option without information upon which to base projections of private counsel use by USAOs. GAO work shows that in addition to the seven pilot districts in its review, Justice contracted or planned to contract with private counsel firms in five other districts to address foreclosure cases. The future need for private counsel in the remaining 82 districts is uncertain.

Related GAO Products

National Fine Center: Expectations High, But Development Behind Schedule (GAO/GGD-93-95, August 10, 1993).

Justice Department: Litigation and Collection of Civil Fines and Penalties (GAO/GGD-88-23FS, January 7, 1988).

Justice Department: Impediments Faced in Litigating and Collecting Debts Owed the Government (GAO/GGD-87-7BR, October 15, 1986).

Debt Collection: Billions Are Owed While Collection and Accounting Problems Are Unresolved (GAO/AFMD-86-39, May 23, 1986).

Justice Department: Improved Management Processes Would Enhance Justice's Operations (GAO/GGD-86-12, March 14, 1986).

Financial Integrity: Justice Made Progress But Further Improvements Needed (GAO/GGD-86-9, October 31, 1985).

After the Criminal Fine Enforcement Act Of 1984—Some Issues Still Need to Be Resolved (GAO/GGD-86-02, October 10, 1985).

GAO Contact

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800 General Government

- General Services Administration supply depot system
- The 1-dollar coin
- Judiciary's long-range space planning system

Option: General Services Administration Supply Depot System

Authorizing committees	Governmental Affairs (Senate) Government Reform and Oversight (House)
Primary agency	General Services Administration
Account	General Supply Fund (47-4530)
Spending type	Direct
Budget subfunction	General property and records management
Framework theme	Improve efficiency

The General Services Administration (GSA) has a multimillion dollar supply system to help support federal agencies' mission needs. As part of this system, GSA buys and warehouses about 16,000 common-use supply products and resells and ships them to federal agencies through five depots. An alternative method GSA uses is to have supplies delivered directly from suppliers to federal agencies. Agencies pay less when supplies are delivered directly. At the time of GAO's most recent work, GSA marked up directly delivered products, on average, 10 percent of product cost, while products stored and shipped from GSA depots were marked up an average of 29 percent. By fiscal year 1995, GSA's markups had increased to 22 percent and 36 percent, respectively. Although the cost difference between the two delivery options has lessened in the intervening years for a variety of reasons, including a changed methodology for calculating mark-ups, the difference is still significant and reflects the higher costs associated with maintaining and operating a large depot distribution system.

GAO's review showed that GSA directly delivered only an estimated $68 million of the estimated $800 million in sales that had potential for direct delivery during the 12-month period ending on February 14, 1991. This means that over 80 percent of depot sales had potential to be supplied in this way. The remaining depot sales were mostly low-value, small-quantity orders which may have been uneconomical for GSA to handle—more specifically it cost them more to provide the materials than the customer paid. Most of these orders could have been purchased locally without going through GSA. If GSA increased direct delivery and encouraged agencies to purchase low-value, small-quantity orders locally, it could significantly reduce needed depot operations.

Maintaining a large and costly depot distribution system may no longer be a viable or necessary activity for the federal government. Consistent with this position, the Vice President's National Performance Review recommended that supply inventories be reduced and agencies be allowed to choose sources of supply. In response, GSA is studying its own and private-sector depot distribution costs to identify where greater efficiency could be achieved. In addition, GSA (1) has drafted regulatory changes that, if implemented, will permit agencies to use supply sources other than depots, (2) has begun actions to identify logistic models that may provide other sources of supply capable of providing items at reasonable costs, and (3) has increased the use of commercial rather than government-specific item descriptions, which should provide a clearer link between the items agencies need and those available commercially. To the extent that GSA's efforts result in more economical and efficient ways for agencies to obtain needed supplies outside the depot system, GAO believes that there will be increased opportunities to reduce or possibly even eliminate GSA's depot system.

One option that the Congress could consider would be to require increased use of direct delivery for high-dollar value supplies and only stocking items that are profitable. After these changes are implemented, GSA or the Congress could phase out GSA depots that are no longer economically justifiable or needed. If all the depots were phased out, the following savings would result.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level adjusted for inflation					
Budget authority	15	31	46	47	49
Outlays	11	27	42	47	48

Source: Congressional Budget Office.

Related GAO Products

General Services Administration: Increased Direct Delivery of Supplies Could Save Millions (GAO/GGD-93-32, December 28, 1992).

Transition Series: General Services Issues (GAO/OCG-93-28TR, December 1992).

GAO Contact

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Option: The 1-Dollar Coin

Authorizing committees	Banking, Housing, and Urban Affairs (Senate) Banking and Financial Services (House)
Primary agency	Department of the Treasury
Spending type	Direct
Framework theme	Improve efficiency

In 1993, GAO reported on cost savings associated with the 1-dollar coin. We said that because a dollar coin would have a longer life and be more easily processed than a note, and because the seignorage recognized reduces the amount of borrowing needed to finance the deficit, substituting a dollar coin for a dollar note would yield significant savings to the government. Other countries have demonstrated that public resistance to such a change can be managed and overcome.

The direct budgetary savings from this option are relatively small during the CBO 5-year estimating period. These savings, shown in the table that follows, result from increases in payments of earnings by the Federal Reserve Bank into miscellaneous receipts of the Treasury.

Although not reflected in the table, there are other substantial longer term savings due to the effects of seigniorage. Seignorage is the difference between the face value of the coin and its cost of production, which includes the value of the metals contained in the coin and the Mint's manufacturing and distribution costs. Seignorage is not considered part of the budget, but it does substitute for borrowing from the public and, thus, lowers interest costs to the government.

Five-Year Revenues

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Revenue gains	0	0	20	30	50

Source: Congressional Budget Office.

Related GAO Products

1-Dollar Coin: Reintroduction Could Save Millions If Properly Managed (GAO/GGD-93-56, March 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

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Option: Judiciary's Long-Range Space Planning System

Authorizing committees	Environment and Public Works (Senate) Transportation and Infrastructure (House)
Primary agency	Administrative Office of the United States Courts
Account	Federal Buildings Fund (47-4542)
Spending type	Direct
Budget subfunction	General property and records management
Framework theme	Improve efficiency

In 1988, the Administrative Office of the U.S. Courts (AOC) developed a long-range plan for space needs. Based on 1992 space projections by the AOC, GAO estimated that the total space requirements for courts and related agencies would increase to about 36.9 million square feet over a 10-year period—a 97-percent increase. GAO found that AOC's planning process resulted in higher estimates for court space than is warranted. Using the judiciary's $31 per square foot average cost for all court space, GAO showed that the judiciary could save approximately $112 million annually, or $1.1 billion in constant dollars over a 10-year period, if the errors in its planning process were corrected.

The Congress should direct the judiciary to revise its planning process for identifying long-range space needs. Specifically, the process should (1) treat all judicial districts consistently in terms of assumptions between caseloads, staff, and space, (2) establish a baseline of space needs for each district that reflects current caseloads, and (3) increase the reliability of its estimates by using an appropriate statistical methodology to project caseloads and by reducing the level of subjectivity in the process. Because of uncertainty about the nature and extent of changes that might be made to the planning process, a 5-year estimate of savings cannot be developed for this option.

Related GAO Products

Federal Judiciary Space: Progress Is Being Made to Improve the Long-Range Planning Process (GAO/T-GGD-94-146, May 4, 1994).

Federal Judicial Space Follow-up (GAO/GGD-94-135R, April 22, 1994).

Federal Judiciary Space: Long-Range Planning Process Needs Revision (GAO/T-GGD-94-1B, October 7, 1993).

Federal Judiciary Space: Long-Range Planning Process Needs Revision (GAO/GGD-93-132, September 28, 1993).

GAO Contact

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Multiple

- Premium payments to employees while on leave
- Global positioning system technology
- Reform or repeal the Davis-Bacon Act
- Better manage Department of Energy overtime costs
- Eliminate prefinancing funds for Department of Energy contractors
- Use uncosted obligations to offset future budget needs
- Federal agency credit management programs
- Formula-based grant programs

Option: Premium Payments to Employees While on Leave

Authorizing committees	Multiple
Appropriations subcommittees	Multiple
Primary agency	Multiple
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple
Framework theme	Improve efficiency

The Office of Personnel Management has directed all federal agencies to pay employees who are scheduled to work on Sundays at the Sunday premium pay rate even if the employees take leave on Sunday. The directive became effective on May 27, 1993, and was based on a U.S. Claims Court interpretation of federal leave statutes that prohibit an employee's pay from being diminished due to taking leave. Prior to this time, employees who took leave on Sunday were paid at their basic pay rate for the leave rather than the Sunday premium rate of the base rate plus 25 percent. The Department of Transportation (DOT), which paid $36.8 million for Sunday premium pay in fiscal year 1993, estimated that regularly paying the Sunday premium pay rate to employees on leave would cost it an additional $6 million annually.

The House Committee on Appropriations' Subcommittee on Transportation and Related Agencies included a provision in the DOT fiscal year 1995 appropriation that precluded DOT from paying premium pay for Sundays not actually worked. The Congress could consider including similar provisions in the appropriations for other agencies which pay Sunday premium pay or alternatively revise the federal leave statutes to require that the employees receive their base rate of pay when on leave. A 5-year estimate of savings cannot be developed at this time. This is because specific data concerning Sunday premium pay are not currently centralized. GAO expects to have these data in the near future.

Related GAO Product

None identified.

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Option: Global Positioning System Technology

Authorizing committees	Multiple
Appropriations subcommittees	Multiple
Primary agency	Multiple
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple
Framework theme	Improve efficiency

Many federal agencies are developing differential global positioning system (DGPS) technology to provide more accurate satellite-based positioning information for navigation, surveying, or mapping. For example, the Federal Aviation Administration is planning a national DGPS network for aviation costing about $500 million and the Coast Guard is installing a coastal and inland waterway DGPS marine navigation system expected to cost about $18 million. At least 22 other federal agencies have identified future DGPS applications, such as automatic vehicle location, improved rail safety, and more accurate mapping and surveying for highway construction or natural resource inventory activities, among other uses.

GAO found, however, that while some agencies have modified their DGPS systems to permit use by other federal agencies, most federal agencies were not developing joint DGPS technology or sharing equipment. This occurred because (1) federal agencies are not required to coordinate their DGPS development and (2) the lead agency for civil DGPS development—the Department of Transportation (DOT)—has never received legislative or executive branch authority to coordinate non-DOT agencies' use of DGPS.

The Congress may want to consider directing the Office of Management and Budget (OMB) to develop a stronger coordination mechanism for managing future federal DGPS activities. Such a mechanism would require, among other things, that agencies justify why future DGPS applications could not be met by other federal systems. If the Congress delayed spending until a coordination mechanism were implemented or reduced appropriations to eliminate duplication, future costs would be lower. A 5-year estimate of savings cannot be developed at this time. This is because data on the amounts agencies spend for these activities and the portion of spending that is overlapping are not available.

Related GAO Product

Global Positioning Technology: Opportunities for Greater Federal Agency Joint Development and Use (GAO/RCED-94-280, September 28, 1994).

GAO Contact

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Option: Reform or Repeal the Davis-Bacon Act

Authorizing committees	Labor and Human Resources (Senate) Economic and Educational Opportunities (House)
Appropriations subcommittees	Labor, Health and Human Services, and Education (Senate and House)
Primary agency	Department of Labor
Accounts	Multiple
Spending type	Discretionary
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 the 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 the costs of federally funded construction projects.

In 1979, GAO expressed major concerns about the accuracy of wage determinations and its impact on federal construction costs. As a result of these concerns, GAO recommended that Davis-Bacon be repealed. While Davis-Bacon regulatory changes have addressed some specific concerns raised in our 1979 report, other concerns remain, most notably the potential for wage determinations to be based on low quality data. For example, wage determinations are completed with response rates as low as 25 percent because Labor must depend on the voluntary cooperation of contractors to respond to requests for wage and benefit data. In addition, Labor does not verify the data received, even on a sample basis. Finally, Labor reports that the average age of a wage survey is more than 7 years.

CBO has noted that repealing Davis-Bacon or raising the threshold would increase employment opportunities for less-skilled workers. However, such changes also would lower the earnings of some construction workers. If the Congress repealed Davis-Bacon, the following savings would apply.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	390	410	420	430	440
Outlays	150	430	600	690	770
Savings from the 1995 funding level adjusted for inflation					
Budget authority	390	410	420	430	440
Outlays	150	430	600	690	770

Source: Congressional Budget Office.

Related GAO Products

Changes to the Davis-Bacon Act Regulations and Administration (GAO/HEHS-94-95R, February 7, 1994).

The Davis-Bacon Act Should be Repealed (GAO/HRD-79-18, April 27, 1979).

GAO Contact

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Option: Better Manage Department of Energy Overtime Costs

Authorizing committees	Armed Services (Senate) Energy & Natural Resources (Senate) National Security (House) Commerce (House)
Appropriations subcommittees	Energy & Water Development (Senate and House) Interior (Senate and House)
Primary agency	Department of Energy
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple
Framework theme	Improve efficiency

The Department of Energy's (DOE) direct overtime costs for its federal employees increased from $15.5 million in 1989 to $26.5 million in 1993, and its efforts to manage and minimize such costs have been limited.

As a result, DOE has (1) incurred costs for questionable overtime work, such as driving DOE officials to the airport from their homes on weekends, (2) not fully utilized compensatory time as a less costly alternative to paid overtime, and (3) not consistently planned annual leave to minimize the use of overtime. In order to better manage overtime and minimize costs, DOE should (1) ensure that the types of work driving overtime costs are essential, (2) increase the use of compensatory time as an alternative to paid overtime, and (3) ensure that annual leave is planned to minimize the use of overtime. The Congress may wish to reduce DOE appropriations in anticipation of changes in DOE's direct overtime costs practices. The following table illustrates the savings that could be realized over 5 years if DOE reduced its overtime expenditures annually by 6 percent.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	1	2	3	4	5
Outlays	1	2	3	4	5
Savings from the 1995 funding level adjusted for inflation					
Budget authority	1	2	3	4	6
Outlays	1	2	3	4	6

Source: Congressional Budget Office.

Related GAO Product

Energy Management: Department of Energy's Efforts to Manage Overtime Costs Have Been Limited (GAO/RCED-94-282, September 27, 1994).

GAO Contact

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Option: Eliminate Prefinancing Funds for Department of Energy Contractors

Authorizing committees	Armed Services (Senate) Energy & Natural Resources (Senate) National Security (House) Commerce (House)
Appropriations subcommittees	Energy & Water Development (Senate and House) Interior (Senate and House)
Primary agency	Department of Energy
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple
Framework theme	Improve efficiency

At the end of fiscal year 1992, the Department of Energy (DOE) had allowed its management and operating contractors to hold $219 million in "prefinancing" funds, that is, amounts to be used to continue operations in the event an appropriations act is not enacted at the beginning of the next fiscal year. This was based on DOE's belief that the contractors needed assurances that their operations could continue for at least 20 days and that there were no other funds available to continue operations should a funding lapse occur.

GAO believes that providing contractors prefinancing funds is excessive and unnecessary. DOE allows contractors to hold prefinancing funds without sufficient analysis by DOE of (1) the likely number of days contractors would be without funds if a funding lapse occurred, (2) the activities for which funding needs to be provided, and (3) the availability of other mechanisms to provide funds during any such lapse. Equally significant, DOE is providing these funds to the contractors with their operating or construction funds and not requiring that separate balances of prefinancing funds be maintained. DOE has since reduced the amounts of prefinancing. However, as of the end of fiscal year 1994, contractors still held $32 million for prefinancing purposes. Using these available funds to meet current operating needs would enable the Congress to reduce DOE appropriations by a similar amount. A one-time savings of $32 million in fiscal year 1996 could be realized if prefinancing funds were discontinued.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 funding level					
Budget authority	32	0	0	0	0
Outlays	19	10	2	0	0
Savings from the 1995 funding level adjusted for inflation					
Budget authority	32	0	0	0	0
Outlays	19	10	2	0	0

Source: Congressional Budget Office.

Related GAO Product

DOE Management: Funds for Maintaining Contractors' Operations Could Be Reduced and Better Controlled (GAO/RCED-94-27, October 25, 1993).

GAO Contact

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Option: Use Uncosted Obligations to Offset Future Budget Needs

Authorizing committees	Armed Services (Senate) Energy & Natural Resources (Senate) National Security (House) Commerce (House)
Appropriations subcommittees	Energy & Water Development (Senate and House) Interior (Senate and House)
Primary agency	Department of Energy
Accounts	Multiple
Spending type	Discretionary
Budget subfunctions	Multiple
Framework theme	Improve efficiency

Uncosted obligations are budget authority that the Department of Energy (DOE) has obligated to its contractors for goods and services that have not yet been provided and for which costs have therefore not been incurred. At the end of fiscal year 1994, uncosted obligations totaled about $8.4 billion for DOE-funded programs.

Over the past several years, GAO has audited DOE's uncosted balances and found amounts that were no longer needed for their original purposes that could be used to offset future funding requirements. For example, a 1994 GAO review of two DOE program areas—Environmental Restoration and Waste Management, and Defense Programs—identified over $500 million in available funding for fiscal year 1995. DOE plans to use $620 million in uncosted obligations to offset its fiscal year 1995 budget needs.

GAO believes that additional uncosted funds are available because the scope of our reviews so far has been limited to two major accounts—Defense Programs and Environmental Management—that account for about $4 billion in uncosted balances. Other programs also hold large balances. Future appropriations could be reduced to reflect these unused funds.

The Congress may wish to consider rescinding fiscal year 1995 appropriations and/or reducing fiscal year 1996 appropriations to reflect these unused funds. Based upon our last two audits of DOE's two accounts alone, reducing appropriations by $500 million in fiscal year 1996 could achieve the following savings.[1]

[1]The budget authority amount is a GAO estimate. The corresponding outlays are computed using CBO spendout rates.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Savings from the 1995 Defense Plan					
Budget authority	500	0	0	0	0
Outlays	300	164	37	0	0

Source: Congressional Budget Office.

Related GAO Product

Energy Management: Use of Uncosted Balances to Meet Budget Needs (GAO/RCED-94-232FS, June 6, 1994).

GAO Contact

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Option: Federal Agency Credit Management Programs

Authorizing committees	Multiple
Appropriations subcommittees	Multiple
Primary agencies	Multiple
Accounts	Multiple
Spending type	Discretionary/Direct
Budget subfunctions	Multiple
Framework theme	Improve efficiency

Federal agencies are expected to implement several loan origination, account servicing, collection, and write-off initiatives specified by the Office of Management and Budget (OMB) in its nine-point credit management program.

However, GAO has reported several times that agencies are not adequately screening applicants for delinquent federal debt, and, in some instances, are not using private collection firms in the normal collection process. GAO believes that not using these tools contributes to delinquencies and adversely affects the government's ability to make collectible loans and to collect on outstanding loans. In the fiscal year 1995 budget submission, OMB reported that in fiscal year 1993, lending agencies wrote off about $2.7 billion of direct loans and terminated for default over $8.4 billion of guaranteed loans; for fiscal year 1994, OMB estimated that write-offs will be about $1.3 billion and terminations about $9 billion.

Although OMB has established a sound credit management program, and both OMB and Treasury provide instruction to agencies on the use of the nine-point credit management program tools, agencies are not legislatively required to do so. GAO believes that agencies' credit management programs would be improved if the Congress required the use of many of these initiatives.

This option could be applied to some or all of the loans and debts of many agencies. Savings would depend on the extent to which agencies adopt appropriate credit management tools.

Related GAO Products

Federal Credit and Insurance Programs: Actions That Could Minimize a Growing Risk (GAO/T-AFMD-92-1, October 24, 1991).

Guaranteed Loan Programs Are an Increasing Risk (GAO/T-AFMD-90-29, September 18, 1990).

Credit Management: Deteriorating Credit Picture Emphasizes Importance of OMB's Nine-Point Program (GAO/AFMD-90-12, April 16, 1990).

GAO Contact

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Option: Formula-Based Grant Programs

Authorizing committees	Multiple
Appropriations subcommittees	Multiple
Primary agencies	Multiple
Accounts	Multiple
Spending type	Discretionary/Direct
Budget subfunctions	Multiple
Framework theme	Redefine beneficiaries

GAO has issued many reports over the past decade showing that the distribution of federal grants to state and local governments is not well-targeted to those jurisdictions with greatest programmatic needs or lowest fiscal capacity to meet those needs. As a result, program recipients in areas with relatively lower needs and greater wealth may enjoy a higher level of services than is available in harder pressed areas, or the wealthier areas can provide the same level of services at lower tax rates than harder pressed areas.

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 the cuts. At the same time, redesigned formulas could hold harmless the hardest pressed areas, which are most vulnerable.

Cuts in federal grants to states could be targeted by disproportionately reducing federal funds to states with the strongest tax bases and fewer needs. Cuts in federal grants to local governments could be targeted by either concentrating cuts on areas with the strongest tax bases or by changing program eligibility to restrict grant funding only to those places with lower fiscal capacity or greatest programmatic needs.

As an example, during the debate in 1986 over the termination of General Revenue Sharing, GAO reported that a better targeted formula and restricted eligibility could achieve a 50-percent cut in total outlays, while maintaining or increasing federal funds to harder pressed jurisdictions. Recently, the administration proposed reducing outlays for the Low Income Home Energy program by over $1.2 billion for fiscal year 1995 by targeting the formula to concentrate remaining funds on states it views as having the greatest needs.

An example that illustrates the potential of this type of option is a 10-percent reduction in the aggregate total of all closed-ended or capped formula grant programs exceeding $1 billion.[2] This group includes over 70 percent of the dollars for such programs but excludes some major open-ended formula reimbursement programs, most notably Aid to Families with Dependent Children and Medicaid. The savings achieved through this option 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, 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

	FY96	FY97	FY98	FY99	FY00
Discretionary spending					
Savings from the 1995 funding level					
Budget authority	2,430	2,430	2,430	2,430	2,430
Outlays	1,740	3,390	3,990	4,210	4,370
Savings from the 1995 funding level adjusted for inflation					
Budget authority	2,430	2,500	2,590	2,670	2,760
Outlays	1,740	3,400	4,020	4,250	4,420

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions

	FY96	FY97	FY98	FY99	FY00
Direct spending					
Savings from the 1995 funding level adjusted for inflation					
Budget authority	1,800	2,250	2,320	2,390	2,460
Outlays	80	100	100	100	100

Source: Congressional Budget Office.

Related GAO Products

Medicaid: Alternatives for Improving the Distribution of Funds to States (GAO/HRD-93-112FS, August 20, 1993).

[2]In the transportation budget function, several very small closed-ended grants could not be easily isolated in the baseline and thus are included in the estimate.

Remedial Education: Modifying Chapter 1 Formula Would Target More Funds to Those Most in Need (GAO/HRD-92-16, March 28, 1992).

Drug Treatment: Targeting Aid to States Using Urban Population as Indicator of Drug Use (GAO/HRD-91-17, November 27, 1990).

Local Governments: Targeting General Fiscal Assistance Reduces Fiscal Disparities (GAO/HRD-86-113, July 24, 1986).

Highway Funding: Federal Distribution Formulas Should Be Changed (GAO/RCED-86-114, March 31, 1986).

Changing Medicaid Formula Can Improve Distribution of Funds to States (GAO/GGD-83-27, March 9, 1983).

GAO Contact

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Receipts

- Tax treatment of health insurance premiums
- Information reporting on forgiven debts
- Administration of the tax deduction for real estate taxes
- Corporate tax document matching
- Tax treatment of interest earned on life insurance policies and deferred annuities
- Federal agency reporting to the Internal Revenue Service
- Independent contractor tax compliance
- Deductibility of home equity loan interest
- Internal Revenue Service staff utilization
- Collecting gasoline excise taxes
- Computing excise tax bases
- Small-issue industrial development bonds and qualified mortgage bonds
- Improving compliance of sole proprietors
- Increase highway user fees on heavy trucks

Option: Tax Treatment of Health Insurance Premiums

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 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. 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—that is 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 a refundable tax credit of 20 percent of all premiums, with eligible premiums capped at $360 and $170 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. The option is effective for payments of health insurance premiums paid after December 31, 1995.

Five-Year Revenues

Dollars in billions

	FY96	FY97	FY98	FY99	FY00
Revenue gains	24.9	–0.4	–0.2	0.1	0.6

Source: Joint Committee on Taxation.

Note: JCT provided its revenue estimates in billions of dollars.

Related GAO Product

Tax Policy: Effects of Changing Tax Treatment of Fringe Benefits (GAO/GGD-92-43, April 7, 1992).

GAO Contact

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Option: Information Reporting on Forgiven Debts

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

The Internal Revenue Code requires taxpayers to report forgiven debts as income except under certain circumstances. GAO reviewed taxpayer compliance in reporting the Federal Deposit Insurance Corporation's (FDIC) and Resolution Trust Corporation's (RTC) forgiven debt with and without information reporting by these corporations to IRS.

Information reporting increased taxpayer compliance. For example, without information reporting, 1 percent of taxpayers voluntarily reported FDIC forgiven debts. With reporting, 48 percent voluntarily reported their forgiven debts. With the information reports, IRS was able to detect that another 20 percent had failed to report their forgiven debts, yielding 68 percent of taxpayers eventually complying.

In 1993, the Congress required information reporting on forgiven debts by FDIC, RTC, the National Credit Union Administration, credit unions, certain banks, and federal agencies. The Congress could consider extending the requirement to other lending institutions. Revenues for this option are difficult to estimate due to uncertainties about its effect on lending institution reporting practices. However, to illustrate potential savings from this option, if the requirement were extended to finance companies, JCT estimates revenue gains of under $50 million, assuming an effective date of January 1, 1996.

Five-Year Revenues

Dollars in billions

	FY96	FY97	FY98	FY99	FY00
Revenue gains	[a]	[a]	[a]	[a]	[a]

Source: Joint Committee on Taxation.

Note: JCT provided its revenue estimates in billions of dollars.

[a]A gain of less than $50 million.

Related GAO Product

Tax Administration: Information Returns Can Improve Reporting of Forgiven Debts (GAO/GGD-93-42, February 17, 1993).

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Option: 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 1099's, 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, 1996 and for amounts reported on tax bills after December 31, 1997. Together, the proposals would increase federal fiscal year revenues as shown in the table below.

Five-Year Revenues

Dollars in billions

	FY96	FY97	FY98	FY99	FY00
Revenue gains	0	[a]	0.1	0.2	0.2

Source: Joint Committee on Taxation.

Note: JCT provided its revenue estimates in billions of dollars.

[a]A gain of less than $50 million.

Related GAO Product

Tax Administration: Overstated Real Estate Tax Deductions Need To Be Reduced (GAO/GGD-93-43, January 19, 1993).

GAO Contact

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Option: Corporate Tax Document Matching

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

Internal Revenue Service (IRS) data show that corporate compliance with tax laws has declined to an alarming degree. 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 1995-1999, 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 continuing deficits, increased corporate noncompliance, and declining audit coverage, the Congress may wish to require a corporate document matching program.

JCT has not developed an estimate of revenue gains from this proposal. JCT agrees that this option will result in increased revenues, but those revenues will depend heavily on the scope of coverage under an expanded information reporting system.

Related GAO Product

Tax Administration: Benefits of a Corporate Document Matching Program Exceed the Costs (GAO/GGD-91-118, September 27, 1991).

GAO Contact

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Option: Tax Treatment of 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 like 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 want to reconsider granting preferential tax treatment to inside buildup, weighing the social benefits against the revenue forgone. The Congress may wish to consider taxing the interest earned on life insurance policies and deferred annuities. The table below reflects the estimated savings from this option, effective for life insurance policies and annuities purchased after December 31, 1995.

Five-Year Revenues

Dollars in billions

	FY96	FY97	FY98	FY99	FY00
Revenue gains	4.5	12.9	16.8	20.6	23.2

Source: Joint Committee on Taxation.

Note: JCT provided its revenue estimates in billions of dollars.

Related GAO Product

Tax Policy: Tax Treatment of Life Insurance and Annuity Accrued Interest (GAO/GGD-90-31, January 29, 1990).

GAO Contact

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Option: Federal Agency Reporting to the Internal Revenue Service

Authorizing committees	Governmental Affairs (Senate) Finance (Senate) Government Reform and Oversight (House) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

According to Internal Revenue Service (IRS) data, corporate tax compliance decreased by 20 percentage points between 1980 and 1987. Information returns—reports provided to IRS by payers of interest, dividends, or other tax-related information—have proven to be highly cost-effective in generating billions of tax dollars from individual taxpayers. However, no such program exists for payments to corporations. IRS matches information return data to individuals' tax returns, which induces individuals to voluntarily report income and helps to identify those who do not. Similar results might be obtained from corporations.

Federal agencies could help increase corporate tax compliance by reporting their payments made to corporations for services. Federal agencies paid corporations about $61 billion for service contracts of more than $25,000 in 1990.

JCT has not developed an estimate of the revenue gains for this proposal. JCT does not disagree that improved reporting could increase compliance.

Related GAO Product

Tax Administration: Federal Agencies Should Report Service Payments Made to Corporations (GAO/GGD-92-130, September 22, 1992).

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Option: 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. Since 1989, 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 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 requiring information reporting on payments made to some independent contractors constituted as corporations. The proposal—the service industry noncompliance initiative or SINC—would have extended 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.

JCT did not provide an estimate for this option. Estimating the revenue gains from this option is difficult. A previous estimate by the JCT showed that the proposal increased revenues by about $400 million over 5 years. In contrast, the Department of Treasury's Office of Tax Analysis estimated a 5-year gain of about $5 billion. Estimates can vary widely depending on the definition of independent contractor, the scope of coverage under an expanded information reporting or withholding system, and assumptions about how much more unreported income could be captured.

Related GAO Product

Tax Administration: Approaches for Improving Independent Contractor Compliance (GAO/GGD-92-108, July 23, 1992).

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Option: 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 grew at an average annual rate of about 20 percent between 1981 and 1991. 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 to the first $300,000 of indebtedness for the taxpayer's principal and second residence. Assuming an effective date of January 1, 1997, this option would generate the following revenues.

Five-Year Revenues

Dollars in billions

	FY96	FY97	FY98	FY99	FY00
Revenue gains	3.8	6.5	7.2	8.1	9.2

Source: Joint Committee on Taxation.

Note: JCT provided its revenue estimates in billions of dollars.

Related GAO Product

Tax Policy: Many Factors Contributed to the Growth in Home Equity Financing in the 1980s (GAO/GGD-93-63, March 25, 1993).

GAO Contact

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Option: Internal Revenue Service Staff Utilization

Authorizing committees	Appropriations (Senate and House) Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

The allocation of IRS' collection staff has not been based on the relative productivity of its collection programs. Some of the more productive programs, such as IRS automatic call sites, have not reached their full potential because staff are assigned to less productive field collection activities. The productivity of collection staff also varies greatly among collection locations.

More emphasis on contacting delinquent taxpayers early using telephone collection techniques and allocating staff based on productivity should increase collections. A rough GAO estimate indicated that the reassignment of about 1,000 staff from field collections—the least productive use of staff—to telephone collections could increase collections by about $1.2 billion per year. In IRS' fiscal year 1995 appropriations, the Congress directed IRS to utilize any additional collection staff for telephone collections and not for field collections.

Although CBO does not disagree that better utilization of IRS staff can increase revenues, it does not make budget estimates of such increases. This is because it is difficult to establish a clear connection between changes in staff allocations and revenue gains. In addition, even if such a connection can be established, the magnitude of such gains attributable to reallocation is not certain enough for budget scorekeeping purposes.

Related GAO Products

Tax Administration: New Delinquent Tax Collection Methods of IRS (GAO/GGD-93-67, May 11, 1993).

Tax Administration: Improved Staffing of IRS' Collection Function Would Increase Productivity (GAO/GGD-93-97, May 5, 1993).

April 21, 1993, letter to the Honorable Steny H. Hoyer, Chairman, Subcommittee on Treasury, Postal Service, and General Government, House Committee on Appropriations.

Internal Revenue Service Receivables (GAO/HR-93-13, December 1992).

Tax Administration: IRS' System Used in Prioritizing Taxpayer Delinquencies Can Be Improved (GAO/GGD-92-6, March 26, 1992).

Tax Administration: Efforts to Prevent, Identify, and Collect Employment Tax Delinquencies (GAO/GGD-91-94, August 28, 1991).

GAO Contact

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Option: Collecting Gasoline Excise Taxes

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 agrees that this option has the potential for increased revenue but has not developed estimates of revenue gains.

Related GAO Product

Tax Administration: Status of Efforts to Curb Motor Fuel Tax Evasion (GAO/GGD-92-67, May 12, 1992).

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Option: Computing Excise Tax Bases

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

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. Of the five excise taxes GAO studied in 1989, alcohol and tobacco taxes yielded over 99 percent of the increased revenue that indexing would have generated. The Congress may wish to consider indexing excise tax rates for alcohol and tobacco. The table below reflects the estimated savings from this option with an effective date of January 1, 1996.

Five-Year Revenues

Dollars in billions

	FY96	FY97	FY98	FY99	FY00
Revenue gains	0.4	0.7	1.1	1.4	1.8

Source: Joint Committee on Taxation.

Note: JCT provided its revenue estimates in billions of dollars.

Related GAO Products

Alcohol Excise Taxes: Simplifying Rates Can Enhance Economic and Administrative Efficiency (GAO/GGD-90-123, September 27, 1990).

Tax Policy: Revenue Potential of Restoring Excise Taxes to Past Levels (GAO/GGD-89-52, May 9, 1989).

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Option: Small-Issue Industrial Development Bonds and Qualified Mortgage Bonds

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Department of the Treasury
Spending type	Direct
Framework theme	Reassess objectives

Industrial development bonds (IDB), issued by state and local governmental authorities, are used to help finance the creation or expansion of manufacturing facilities. Qualified mortgage bonds (QMB), issued by state and local housing agencies, allow home buyers to receive below-market rates on their mortgages. Interest earned by investors on IDBs and QMBs is exempt from federal income taxes.

In 1993, the Congress made permanent the authority of state and local governments to issue QMBs and IDBs. However, GAO believes that the achievement of public benefits from both IDBs and QMBs is questionable.

GAO found that (1) job creation attributed to IDB projects would likely have occurred without issuance of the bonds in the three states reviewed, (2) there is no evidence to support the contention that IDBs achieve significant public benefits, such as providing economic growth to depressed areas, and (3) most developers contacted said that they would have proceeded with their projects in the absence of IDBs. Similarly, GAO found that QMBs (1) do little to increase home ownership, (2) are usually provided to home buyers who do not need them to obtain a conventional (unassisted) mortgage loan, and (3) are not cost-effective.

Both IDBs and QMBs could be better targeted. For example, IDBs could be focused on economically distressed areas or to start-up companies, and QMBs could be directed toward home buyers who could not reasonably qualify for unassisted conventional loans. However, because of evidence that neither IDBs nor QMBs are achieving their intended benefits and in view of lost tax revenues, the Congress may wish to consider repealing both provisions. Estimated revenues gained from eliminating QMBs and IDBs are shown in the table below.

Five-Year Revenues

Dollars in billions

	FY96	FY97	FY98	FY99	FY00
Revenue gains	[a]	0.2	0.3	0.4	0.5

Source: Joint Committee on Taxation.

Note: JCT provided its revenue estimates in billions of dollars.

[a]A gain of less than $50 million.

Related GAO Products

Industrial Development Bonds: Achievement of Public Benefits Is Unclear (GAO/RCED-93-106, April 22, 1993).

Home Ownership: Limiting Mortgage Assistance Provided to Owners With High Income Growth (GAO/RCED-90-117, September 26, 1990).

Home Ownership: Targeting Assistance to Buyers Through Qualified Mortgage Bonds (GAO/RCED-88-190BR, June 27, 1988).

Home Ownership: Mortgage Bonds Are Costly and Provide Little Assistance to Those in Need (GAO/RCED-88-111, March 28, 1988).

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Option: Improving Compliance of Sole Proprietors

Authorizing committees	Finance (Senate) Ways and Means (House)
Primary agency	Internal Revenue Service
Spending type	Direct
Framework theme	Improve efficiency

Sole proprietors have a disproportionate share of noncompliance.[3] Although they account for just 13 percent of individual taxpayers, sole proprietors accounted for about 40 percent of the unreported income on 1988 tax returns filed by individuals. Noncompliance in reporting sole proprietor income by a majority of the estimated 13 million sole proprietors creates an estimated tax gap of $34 billion a year. To date, IRS efforts to improve compliance among these taxpayers have not yielded significant improvements.

GAO analyzed the noncompliance of the 10 least compliant sole proprietor industries in the 1988 Taxpayer Compliance Management Program (TCMP).[4] The TCMP data show that sole proprietors are less compliant, file more complex returns, appear to be intentionally noncompliant more often, and tend to be better off financially than nonbusiness taxpayers. Also, sole proprietors are less likely to prepare their own returns. GAO reviewed the IRS audit workpapers for two market segments with significant noncompliance—the trucking industry and auto body shops—to identify the causes of noncompliance.

IRS can address the overall noncompliance problem of sole proprietorships by developing a system for managing and monitoring all of its sole proprietor compliance projects. IRS' TCMP data can be used to help identify projects that would address the most noncompliant sole proprietor market segments on a nationwide basis and analyze the underlying causes of noncompliance. IRS, then, can work with specific industry groups. For example, IRS could increase compliance by encouraging better recordkeeping in the trucking industry, and better information returns reporting by insurance companies on payments made to auto body shops. As GAO's work showed, if IRS used TCMP data more effectively, and targeted IRS compliance activities to affected industries, then tax collections would increase.

[3]The term sole proprietors refers to self-employed individuals other than farmers.

[4]This program generates compliance data through rigorous audits of randomly selected tax returns.

Because of uncertainties about the nature and impact of any new system IRS might adopt, JCT could not estimate the revenue gains directly attributable to this proposal.

Related GAO Product

Tax Administration: IRS Can Better Pursue Noncompliant Sole Proprietors (GAO/GGD-94-175, August 2, 1994).

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Option: Increase Highway User Fees on Heavy Trucks

Authorizing committees	Science, Commerce, 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. In fiscal year 1993, FHWA collected over $18.5 billion from four user fees: fuel taxes, a heavy vehicle use tax, a new vehicle excise tax, and an excise tax on heavy tires. In 1982, FHWA reported 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.

To increase highway revenues and to respond to the FHWA study, the Congress in 1982 passed the first major increase in federal highway use taxes since 1956. To increase revenues, the Congress raised gasoline and diesel taxes from 4 to 9 cents per gallon. To improve equity, the Congress mandated 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 we recommended in June 1994, FHWA is conducting a formal cost allocation study to determine whether all highway users are paying their fair share of federal highway costs. If this study finds that heavy trucks underpay their share, one solution could be to base the truck's fees on vehicle weight and distance traveled—a method currently employed by six states. The precise revenue gain from this action would depend on the type and amount of user fee increases. Increasing fuel taxes, the heavy vehicle use tax, the new vehicle excise tax, and the excise tax on heavy tires would generate additional revenues. For example, in fiscal year 1993, heavy truck operators paid about $630 million in heavy vehicle use taxes. Raising the ceiling on this fee from $550 to $1,900 per user could raise between $800 million and $1 billion.

JCT does not disagree that this option could yield revenue. However, an estimate of revenue gains is not available at this time.

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).

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