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ADDRESSING THE DEFICIT

Updating the Budgetary Implications of Selected GAO Work

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Comptroller General
of the United States

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

In several previous reports,[1] we have discussed the 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. It updates our previous work in this area[2] with new information and systematically identifies in a single document the budgetary implications of selected program reforms discussed in our work, but not yet implemented or enacted. As in our previous reports and testimony, all of the options are based on key findings and issues developed in our reviews and evaluations.

For this year's report, we updated 96 of the 120 spending reduction and revenue gain options that appeared in last year's report. As discussed below, appendix IV lists the 24 options from last year's report that were not updated because of congressional or agency action that took into consideration GAO's work on the issues.

The updated narrative descriptions of the options 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 each represents one way to address, in a budgetary context, some of the significant problems identified in our reviews of federal policies and programs. The Congress has many available options for dealing with the deficit. 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.

To update each option, we reviewed events over the past year and identified congressional, agency, and other actions that affected the substantive content of the option and/or its likely savings. Budgetary savings estimates for the updated options were again developed by the

[1]The Deficit and the Economy: An Update of Long-Term Simulations (GAO/AIMD/OCE-95-119, April 26, 1995); 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).

[2]Deficit Reduction: Opportunities to Address Long-Standing Government Performance Issues (GAO/T-OCG-95-6, September 13, 1995); Addressing The Deficit: Budgetary Implications of Selected GAO Work for Fiscal Year 1996 (GAO/OCG-95-2, March 15, 1995); and Addressing The Deficit: Budgetary Implications of Selected GAO Work (GAO/OCG-94-3, March 11, 1994).

Congressional Budget Office (CBO) and estimates of revenue gains were developed by the Joint Committee on Taxation (JCT). Where estimates are not provided, a brief explanation and discussion is included with the option.

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 free up 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 direct spending 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.

As in our previous reports and testimonies, we have provided for congressional consideration an analytical framework of individual options (appendix II). The framework is organized around the following 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.

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

As mentioned above, appendix IV describes in some detail actions that have been taken over the last year in accordance with the findings and conclusions of our work. For example, the Department of Energy has taken steps to eliminate contractor prefinancing, terminate procurement of nuclear waste containers, and improve property management controls at its facilities. Examples in the area of national defense include the Department of Defense's decision to terminate the Hunter Joint Tactical Unmanned Aerial Vehicle program, reductions in Army inventories of spare and repair parts at Divisions, and reductions in overall force size and readiness levels of the Ready Reserve Force. Other examples of such options include termination of the Interstate Commerce Commission,

establishment of a new fee system for communications right-of-way based on population, and centralization of loan servicing at the Department of Agriculture's Rural Housing and Community Development Services.

Although we derived the updated 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 February 1995 CBO report, Reducing the Deficit: Spending and Revenue Options, some have been included in House and Senate Budget Resolution proposals over the past 2 years, and some can be found in the President's March 1996 submission, Budget of the United States Government, Fiscal Year 1997—Appendix. Our report next year will include both new options[3] as well as updates of existing options.

We are sending copies of this report to the appropriate congressional committees and to 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 V.

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[3]For example, our recently released report Defense Infrastructure: Budget Estimates for 1996-2001 Offer Little Savings for Modernization (GAO/NSIAD-96-131, April 4, 1996) contained several new options for reduced spending.

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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
CDR	continuing disability review
CSFP	Commodity Supplemental Food Program
CVP	Central Valley Project
DFAS	Defense Finance and Accounting Service
DGPS	differential global positioning system
DI	Disability insurance
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	Environment Protection Agency
FAIR	Federal Agricultural Improvement and Reform Act of 1996
FAA	Federal Aviation Administration
FAS	Foreign Agricultural Service
FDIC	Federal Deposit Insurance Corporation
FHWA	Federal Highway Administration
FY	fiscal year
GAO	General Accounting Office
GSA	General Services Administration
HACCP	Hazard Analysis and Critical Control Point system
HCFA	Health Care Financing Administration
HHS	Department of Health and Human Services
HMO	health maintenance organization
HUD	Department of Housing and Urban Development
IDB	industrial development bond
IFAD	International Fund for Agricultural Development
INS	Immigration and Naturalization Service
IRS	Internal Revenue Service
JCT	Joint Committee on Taxation
JTPA	Job Training Partnership Act

MAP	Military Airport Program
MR	Imagnetic resonance imaging
MTMC	Military Traffic Management Command
MWR	morale, welfare, and recreation
NASA	National Aeronautics and Space Administration
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
QMB	qualified mortgage bond
RFE/RL	Radio Free Europe/Radio Liberty
RHCDS	Rural Housing and Community Development Service
RTC	Resolution Trust Corporation
SBU	strategic business unit
SKFB	Soup Kitchen/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
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. The options are presented in appendix III. The options are organized 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, options with cost or revenue estimates were updated by CBO and JCT. As in last year's report, 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 1996 appropriations increased for projected inflation. A second estimate is of savings compared to the fiscal year 1996 appropriations in nominal terms (held constant for the next 4 years).
- For defense discretionary spending programs, estimates are of savings compared to the 1996 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 the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, proceeds from asset sales are not counted in determining compliance with the discretionary spending limits or the pay-as-you-go (PAYGO) requirements established under the Budget Enforcement Act (BEA). 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 scored 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 whose 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 decision-makers 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 for less skilled workers, the Congress could consider GAO's option to reduce the scope of or repeal Davis-Bacon.

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 that illustrate this strategy.

- Formulas for a variety of grant programs to state and local governments can be revised to better reflect the fiscal capacity of the recipient jurisdiction. This strategy could reduce overall funding demands while simultaneously redistributing available grant funds so that the most needy receive the same or increased levels of support.
- Eligibility rules can be revised, without altering the objectives of the program or service.
- Fees can be targeted 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.

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, it uses a centralized procurement system. GAO's option offers a way to reduce future costs by adapting DOE procurements to EPA's more efficient processes.

Also in keeping with the efficiency theme, GAO has identified more than 150 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 these 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 as well as increase efficiencies in service delivery. 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

This appendix 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
Improved material management can reduce shipyard costs	050-National defense	Discretionary	Improve efficiency
Reduce Army's unfilled war reserve requirements by using other inventory items	050-National defense	Discretionary	Improve efficiency
Defense infrastructure	050-National defense	Discretionary	Improve efficiency
Potential reductions to the fiscal year 1997 defense operation and maintenance budget	050-National defense	Discretionary	Improve efficiency
Continental air defense	050-National defense	Discretionary	Improve efficiency
Carrier battle group expansions and upgrades	050-National defense	Discretionary	Improve efficiency
Army's Comanche helicopter	050-National defense	Discretionary	Reassess objectives
F-22 fighter	050-National defense	Discretionary	Reassess objectives
MK-48 advanced capability torpedo propulsion system	050-National defense	Discretionary	Reassess objectives
Reassess defense conversion spending	050-National defense	Discretionary	Reassess objectives
Improve controls over payments to defense contractors	050-National defense	Discretionary	Improve efficiency
Defense inventories	050-National defense	Discretionary	Improve efficiency
Use prime vendors to supply high-volume clothing and textile items	050-National defense	Discretionary	Improve efficiency
Restructure defense transportation	050-National defense	Discretionary	Improve efficiency
Reduce excess capacity and increase cost-effectiveness of depot maintenance program	050-National defense	Discretionary	Improve efficiency
Use of innovative commercial practices to supply electronics items to maintenance and repair facilities	050-National defense	Discretionary	Improve efficiency
Consolidate the separate military exchange stores	050-National defense	Discretionary	Improve efficiency
Copayments for care in military hospitals	050-National defense	Discretionary	Redefine beneficiaries
Administering defense health care	050-National defense	Discretionary	Improve efficiency
Centralize Department of Energy's procurement of laboratory testing services	050-National defense	Discretionary	Improve efficiency
Restructure the Department of Energy's national laboratories	050-National defense	Discretionary	Reassess objectives
Negotiate more realistic environmental agreements	050-National defense	Discretionary	Reassess objectives

(continued)

Option title	Budget function	BEA category	Framework theme
Food aid: reduce or eliminate funding for Public Law 480 Title I Program	150-International affairs	Discretionary/ direct	Reassess objectives
U.S. contribution to the International Fund for Agricultural Development	150-International affairs	Discretionary	Reassess objectives
Shortwave radio modernization program	150-International affairs	Discretionary	Reassess objectives
TV Marti	150-International affairs	Discretionary	Reassess objectives
Sell high-value property in Tokyo	150-International affairs	Discretionary	Reassess objectives
Space Station	250-General science, space and technology	Discretionary	Reassess objectives
Recover clean coal technology funds	270-Energy	Discretionary	Reassess objectives
Privatize Uranium Enrichment Program	270-Energy	Direct	Reassess objectives
Privatize the Naval Petroleum Reserve-1	270-Energy	Discretionary	Improve efficiency
Consolidate Strategic Petroleum Reserve	270-Energy	Discretionary	Improve efficiency
Federal land policies	300-Natural resources and environment	Direct	Improve efficiency
Collaborative federal land management approach	300-Natural resources and environment	Discretionary	Improve efficiency
Federal timber sales	300-Natural resources and environment	Discretionary	Improve efficiency
Charge fair market value for natural resources	300-Natural resources and environment	Direct	Improve efficiency
Recreation fees at federal sites	300-Natural resources and environment	Direct	Improve efficiency
Hardrock mining royalties	300-Natural resources and environment	Direct	Improve efficiency
Natural resources revenue sharing	300-Natural resources and environment	Discretionary	Improve efficiency
Federal water policies	300-Natural resources and environment	Direct	Improve efficiency
Water transfers	300-Natural resources and environment	Direct	Improve efficiency
Pollution fees and taxes	300-Natural resources and environment	Direct	Improve efficiency
Hazardous waste cleanup cost recovery	300-Natural resources and environment	Discretionary	Improve efficiency
Nuclear waste disposal fees	300-Natural resources and environment	Direct	Improve efficiency
Reduce or eliminate funding for the Market Access Program	350-Agriculture	Direct	Redefine beneficiaries
Reduce funding for the Export Credit Guarantee Programs	350-Agriculture	Direct	Reassess objectives
National Oceanic and Atmospheric Administration research fleet modernization	370-Commerce and housing credit	Discretionary	Improve efficiency
Opportunities to reduce the cost of the 2000 decennial census	370-Commerce and housing credit	Discretionary	Improve efficiency

(continued)

Option title	Budget function	BEA category	Framework theme
Cargo preference laws: their costs and effects	400-Transportation	Discretionary	Reassess objectives
Increase federal fees paid by foreign-flagged cruise ships	400-Transportation	Direct	Redefine beneficiaries
Increase state share of state-supported intercity rail passenger service	400-Transportation	Discretionary	Redefine beneficiaries
Reduce or eliminate Amtrak subsidies	400-Transportation	Discretionary	Reassess objectives
Target military airport program funds within the national airport system	400-Transportation	Discretionary/ direct	Improve efficiency
Enhance Department of Transportation's oversight of its university research	400-Transportation	Discretionary	Improve efficiency
Employment and training programs	500-Education, training, employment and social services	Discretionary/ direct	Improve efficiency
Overall strategy to address prescription drug fraud and Medicaid fraud	550-Health	Direct	Improve efficiency
Medicaid: States use illusory approaches to shift program costs to the federal government	550-Health	Direct	Reassess objectives
Medicaid formula: fairness could be improved	550-Health	Direct	Reassess objectives
Adopt automated drug utilization reviews	550-Health	Direct	Improve efficiency
Teaching hospitals' Medicare payments	570-Medicare	Direct	Improve efficiency
Medicare payment safeguards	570-Medicare	Discretionary/ direct	Improve efficiency
Medicare payments for high technology procedures	570-Medicare	Direct	Improve efficiency
Change the health maintenance organization rate-setting method for Medicare	570-Medicare	Discretionary/ direct	Improve efficiency
Fees for non-Aid to Families with Dependent Children child support enforcement services	600-Income security	Direct	Redefine beneficiaries
Automated child support enforcement systems	600-Income security	Direct	Improve efficiency
Funding for state automated welfare systems	600-Income security	Discretionary/ direct	Improve efficiency
Unified risk-based food safety system	600-Income security	Discretionary	Improve efficiency
Consolidation of U.S. Department of Agriculture food assistance programs	600-Income security	Discretionary/ direct	Improve efficiency
Social Security continuing disability reviews	650-Social Security	Discretionary/ direct	Improve efficiency
Cost-sharing for veterans' long-term care	700-Veterans benefits and services	Discretionary	Redefine beneficiaries
Veterans' disability compensation for non-service connected diseases	700-Veterans benefits and services	Direct	Redefine beneficiaries
Justice's use of private counsel to collect civil debt	750-Administration of justice	Discretionary	Improve efficiency
General Services Administration supply depot system	800-General government	Direct	Improve efficiency
The 1-dollar coin	800-General government	Direct	Improve efficiency
Judiciary's long-range space planning system	800-General government	Direct	Improve efficiency

(continued)

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

050 National Defense

- 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 1997 defense operation and maintenance budget
- Continental air defense
- Carrier battle group expansions and upgrades
- Army's Comanche helicopter
- F-22 fighter
- 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
- Restructure the Department of Energy's national laboratories
- Negotiate more realistic environmental agreements

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 for the Navy's shipyard repair material investment. A cost estimate was not developed for this option because the amount of the reductions would depend on the extent to which the Navy implements our recommendations in a given budget year.

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 1996, 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 1996 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

GAO has reported that as DOD realigns and downsizes, 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, infrastructure areas and processes accounted for $160 billion of the $254 billion fiscal year 1994 Defense budget and 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 fully estimated until a comprehensive consolidation and downsizing plan is specified. However, in an April 1996 report, GAO identified some specific options for reducing defense infrastructure spending.

Related GAO Products

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

Defense Infrastructure: Enhancing Performance Through Better Business Practices (GAO/T-NSIAD/AIMD-95-126, March 23, 1995).

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

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).

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

GAO Contact

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Option: Potential Reductions to the Fiscal Year 1997 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 including training, purchasing of spare and repair parts, and civilian personnel.

GAO analysis of selected O&M requests for fiscal year 1996 showed that the budget for that year could have been reduced by $4.9 billion without damaging defense operations and capabilities. The largest potential reductions, each for over $500 million, were associated with depot maintenance, 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 $481 million was associated with real property maintenance.

The Congress may wish to consider the potential opportunity for savings when formulating fiscal year 1997 appropriations for operation and maintenance accounts.

Based on GAO's analysis regarding potential savings in the fiscal year 1996 O&M budget, the Congress may wish to consider reductions of a similar magnitude, $4.9 billion, when formulating fiscal year 1997 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

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 Defense Plan					
Budget authority	4,900	0	0	0	0
Outlays	3,714	916	157	54	20

Source: Congressional Budget Office.

Related GAO Products

1996 DOD Budget: Potential Reductions to Operation and Maintenance Programs (GAO/NSIAD-95-200BR, September 26, 1995).

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

GAO Contact

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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 (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 antidrug smuggling efforts. However, active and reserve general-purpose and training forces could perform this mission because they (1) have comparable or better aircraft, (2) are located at or near existing air defense bases, and (3) have pilots who possess similar skills or 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. If the dedicated continental air defense force and mission were eliminated, the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 Defense Plan					
Budget authority	238	489	504	519	535
Outlays	189	424	479	505	525

Note: The Defense Department's 1997 plan reduces the number of dedicated continental air defense Air National Guard aircraft from 150 to 90. Under the 1997 plan, potential savings over the period 1997 through 2001 would be reduced to $1,456 million in budget authority savings ($829 million less than under the option above) and $1,350 million in outlay savings ($772 million less than under the option above).

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 from $1.7 billion to $2 billion (in fiscal year 1996 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 1997, the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 Defense Plan					
Budget authority	346	714	740	767	795
Outlays	259	585	677	730	769

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

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 $50 billion, with an estimated program unit cost of about $39 million. Anticipated cost increases and other unresolved technical risks indicate that future cost growth is likely. In December 1994, the Secretary of Defense decided to restructure the Comanche program reducing program cost by about $2 billion for fiscal years 1996 through 2001. This action extended the development phase until 2006 and deferred the production decision until then.

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 its scout helicopter, the Kiowa, and modifying 227 basic model Apaches with the Longbow system which includes a fire control radar with a radar detector and a Hellfire missile with a radio-frequency seeker. 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, deferral of the production decision, 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

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 Defense Plan					
Budget authority	299	298	398	425	533
Outlays	170	272	344	399	477

Source: Congressional Budget Office.

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).

GAO Contact

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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

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 engineering and manufacturing 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 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 showed that replacement of the F-15 is not urgent. 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 over $12 billion. Air Force plans call for procurement of 4 aircraft a year, increasing to 36 a year 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 percentage 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 2000 and eight aircraft in 2001 until initial operational tests and evaluations are completed in April 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

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 Defense Plan					
Budget authority	0	0	87	1,117	1,839
Outlays	0	0	5	90	412

Note: Actual savings could be less because the President's 1997 budget requests 76, rather than 80, aircraft at a cost of about $11 billion.

Source: Congressional Budget Office.

Related GAO Products

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

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).

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, were estimated to cost about $821 million ($249 million for the propulsion upgrade, $462 million for the guidance and control system, and $110 million for the guidance and control software). The Navy plans to upgrade its entire inventory of ADCAP torpedoes over the next 7 years.

The Navy Program Manager requested approval for low-rate initial production for the upgrade program. In 1992, and again in 1995, GAO questioned the need for the propulsion system upgrade and recommended that it 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. In addition, we recommended in June 1995 that the Navy delay any production decision for the guidance and control system because the software necessary to take advantage of the upgraded system will not be ready until 1998. In June 1995, the Navy planned to acquire as many as 529 units at a cost of about $177 million. If the Congress chose to terminate the upgrade program and delay the production decision on the guidance and control system, the following savings could be achieved.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 Defense Plan					
Budget authority	67	64	33	37	7
Outlays	10	29	48	45	34

Source: Congressional Budget Office.

Related GAO Products

Navy Torpedo Program: MK-48 ADCAP Upgrades Not Adequately Justified (GAO/NSIAD-95-104, June 12, 1995).

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
Account	Research, development, test, and evaluation, Defense-wide (97-0400)
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 increased in the early years of the current administration. 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 eleventh 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 1997, the following savings could be achieved.[1]

[1]The National Defense Authorization Act for Fiscal Year 1996 reduced the administration's request of $500 million for the Technology Reinvestment Program to $195 million.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 Defense Plan					
Budget authority	201	207	213	219	226
Outlays	87	170	200	209	218

Source: Congressional Budget Office.

Related GAO Products

Technology Reinvestment Project: Recent Changes Place More Emphasis on Military Needs (T-NSIAD-95-167, May 17, 1995)

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

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

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

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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 (DOD). 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 in interest each day; underpayments are also costly as DOD is required to pay interest on valid invoices that are paid late.

Our October 1995 report shows that the overpayment problem continues to exist and is widespread. The 374 business units (representing 82 large defense contractors and 57 small contractors) that responded to our request for data as of July 1994 reported about $231.5 million in outstanding overpayments and about $625.9 million in underpayments. The evidence suggests and contractors reported that they followed up to collect underpayments and usually notified DOD of overpayments. However, contractors did not always return overpayments unless instructed to do so.

DOD 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: Millions in Contract Payment Errors Not Detected and Resolved Promptly (GAO/NSIAD-96-8, October 6, 1995).

DOD Procurement: Overpayments and Underpayments at Selected Contractors Show Major Problems (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 accumulated inventory that greatly exceeds its operational and war reserve needs. Systemic problems in determining requirements and inadequate financial accountability and control have contributed to poor inventory management practices. Traditionally, DOD's culture has emphasized overbuying and placed little value on economy and efficiency, causing unneeded items to pile up in warehouses. Continuing force reductions and base closures will only compound the situation and result in additional unneeded inventory.

DOD could be more aggressive in implementing private sector practices that could reduce inventory costs. In this regard, the Defense Logistics Agency's most successful program to date uses prime vendors to buy, store, and distribute medical inventory to military hospitals and clinics. Opportunities exist for DOD to adopt similar practices for hardware items such as construction, electronic, and industrial supplies.

Systemic reforms—such as improving the way inventory requirements are determined, using commercial inventory management practices, and changing financial management policies and practices—continue to be needed to achieve further reductions in DOD's budget requirements. GAO estimates that, as of September 1994, only about half of DOD's $73.6 billion in inventory had 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" and "Use of Innovative Commercial Practices to Supply Electronics Items to Maintenance and Repair Facilities."

Related GAO Products

Defense Inventory: Shortages Are Recurring, But Not a Problem (GAO/NSIAD-95-137, August 7, 1995).

Inventory Management: DOD Can Build on Progress in Using Best Practices to Achieve Substantial Savings (GAO/NSIAD-95-142, August 4, 1995).

Defense Inventory: Opportunities to Reduce Warehouse Space (GAO/NSIAD-95-64, May 24, 1995).

Defense Supply: Inventories Contain Nonessential and Excessive Insurance Stocks (GAO/NSIAD-95-1, January 20, 1995).

Commercial Practices: Opportunities Exist to Enhance DOD's Sales of Surplus Aircraft Parts (GAO/NSIAD-94-189, September 23, 1994).

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).

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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. In January 1996, DOD began to implement a prime vendor program at recruit induction centers. 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 Products

Inventory Management: DOD Can Build on Progress in Using Best Practices to Achieve Substantial Savings (GAO/NSIAD-95-142, August 4, 1995).

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

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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

In 1993 and again in 1996, we reported that DOD's current transportation processes are fragmented, inefficient, and costly. Beginning in 1949, various studies, commissions, and task forces have recommended changes in the defense transportation system organizational structure. In 1987, after the Goldwater-Nichols Act of 1986 urged that actions be taken to unify transportation management, the Secretary of Defense established the U.S. Transportation Command (USTRANSCOM). USTRANSCOM's own study shows that little has changed since it was created and charged with responsibility for unifying DOD's transportation infrastructure.

Our work shows that opportunities exist to reduce defense transportation infrastructure and improve efficiency of cargo traffic management operations. For example, combining common-user transportation functions and positions under the direct command and control of a single manager, USTRANSCOM, would reduce overhead and eliminate duplicative functions. Moreover, nearly 90 percent of defense cargo moves by domestic commercial motor carriers during peacetime and noncontingency operations. More such outsourcing is possible and would further reduce transportation costs.

Overall, fixing the organizational structure is a mandatory first step to substantially reduce transportation costs. One logical way, though not the only one, would be to: (1) place the 362 Defense Business Operations Fund Transportation Navy Military Sealift Command staff worldwide together with the Army's Military Traffic Management Command (MTMC), (2) close MTMC continental Unites States area commands at Bayonne, New Jersey, and at Oakland, California, and (3) eliminate MTMC overseas area commands and MTMC port commands.

If the Congress chose to consolidate the organizational structure in this way, the following civilian personnel savings could be achieved.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 Defense Plan					
Budget authority	20	60	105	130	135
Outlays	20	60	105	130	135

Source: Congressional Budget Office.

Related GAO Products

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

Defense Transportation: Streamlining of the U.S. Transportation Command Organization Is Needed (GAO/NSIAD-96-60, February 22, 1996).

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

GAO Contact

David R. Warren, (202) 512-8412

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 the repair and overhaul of military parts, weapon systems, and equipment. This work is accomplished by 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. Faced with substantial excess depot capacity and high infrastructure costs, DOD has been struggling to implement initiatives to more cost-effectively (1) utilize existing maintenance resources at depots and operational units, (2) reduce excess depot maintenance infrastructure, largely by closing depots as a part of the base closure and realignment process, and (3) reallocate workload from closing depots. At the same time, DOD has embarked on the implementation of a depot maintenance strategy that will privatize much of the depot maintenance workload without determining whether privatizing specific depot workloads will result in savings.

In previous reports and as a part of our ongoing review of DOD depot maintenance operations and management, GAO has identified the following shortcomings in these initiatives and has highlighted other actions that could be taken to improve the cost-effectiveness of the DOD depot maintenance program.

First, DOD has not been successful in achieving an optimal balance between maintenance work performed at operational units and at depots. Cost-benefit evaluations of competing alternatives that consider

infrastructure, personnel, material, transportation, and equipment trade-offs could result in significant savings.

Second, the services continue to rely largely on their own service depots rather than maximizing interservicing opportunities by consolidating similar maintenance operations at a single location. On many occasions, we have pointed out that this approach leads to unnecessary duplication of resources. A greater use of cross-servicing could eliminate costly redundancies and excess capacity.

Third, DOD plans to privatize-in-place depot maintenance activities without evaluating other alternatives such as public-private competitions or interservicing. Such privatization-in-place initiatives will do little to resolve the extensive excess capacity problem that currently exists in both public and private sector industrial facilities and may not be the most cost-effective solution. An option that could result in substantial savings would be to reallocate core workload to remaining military depots when determined to be more cost-effective and use competitive procedures to include public and private entities to determine the source-of-repair for noncore workload.

Fourth, DOD is reluctant to use competitions between the public and private sector to assure that the privatization of maintenance workloads will result in savings. While there are opportunities to achieve cost savings by privatizing depot maintenance workloads which have commercial counterparts and where there is a substantial private sector competitive market, it is less likely the private sector will be more cost-effective in an uncompetitive environment. A greater reliance on public-private competitions as a means of depot maintenance workload reallocations could produce significant savings.

Fifth, while the four previous base realignment and closure (BRAC) rounds have resulted in the identification of four naval shipyards, three naval aviation depots and two warfare centers, three Air Force depots, and five Army depots for closure or realignment, significant excess capacity will remain in the public depot system, particularly if DOD proceeds with its privatization-in-place plans. Additional closures and/or realignments could reduce costly excess capacity and produce significant savings.

Sixth, we have reported that reengineering the processes and procedures for organic workloads that have been competed resulted in significant efficiency gains and productivity improvements. Similar reengineering

initiatives for other organic workloads should also result in significant savings.

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

Depot Maintenance: Opportunities to Privatize Repair of Military Engines (GAO/NSIAD-96-33, March 5, 1996).

Closing Maintenance Depots: Savings, Workload and Redistribution Issues (GAO/NSIAD-96-29, March 4, 1996).

Navy Maintenance: Assessment of the Public-Private Competition Program for Aviation Maintenance (GAO/NSIAD-96-30, January 22, 1996).

Depot Maintenance: The Navy's Decision To Stop F/A-18 Repairs at Ogden Air Logistics Center (GAO/NSIAD-96-31, December 15, 1995).

Military Bases: Analysis of DOD's 1995 Process and Recommendations for Closure and Realignment (GAO/NSIAD-95-133, April 14, 1995).

Aerospace Guidance and Metrology Center: Cost Growth and Other Factors Affect Closure and Privatization (GAO/NSIAD-95-60, December 9, 1994).

Correspondence to the Chairman, Subcommittee on Readiness, Committee on Armed Services, follow-up to April 12, 1994, Depot Maintenance Testimony. (GAO/NSIAD-94-242R, July 28, 1994).

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

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).

GAO Contact

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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 four 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 user's facility at about 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 Products

Inventory Management: DOD Can Build on Progress in Using Best Practices to Achieve Substantial Savings (GAO/NSIAD-95-142, August 4, 1995).

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)
Appropriation 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).

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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 controlling costs 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.

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

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	202	203	204	204	205
Outlays	175	197	201	201	202
Savings from the 1996 funding level adjusted for inflation					
Budget authority	202	203	204	204	205
Outlays	175	197	201	201	202

Source: Congressional Budget Office.

Related GAO Products

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

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

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

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

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 and 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 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 is currently attempting to contract for these services on a regional basis.

DOE estimates that laboratory analyses cost are at least 15 percent of its cleanup costs. For fiscal year 1996, DOE was appropriated about $6.2 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

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	62	62	62	62	62
Outlays	43	62	62	62	62
Savings from the 1996 funding level adjusted for inflation					
Budget authority	64	66	68	70	72
Outlays	45	65	67	69	71

Source: Congressional Budget Office.

Related GAO Product

Nuclear Facility Cleanup: Centralized Contracting of Laboratory Analysis Would Produce Budgetary Savings (GAO/RCED-95-118, May 8, 1995).

GAO Contact

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Option: Restructure the 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
Framework theme	Reassess objectives

The Department of Energy's (DOE) laboratory network is comprised of approximately 30 labs, with a budget of about $8 billion and employing over 25,000 scientists and engineers. 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 Task Force 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

facility 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

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	200	200	200	200	200
Outlays	140	200	200	200	200
Savings from the 1996 funding level adjusted for inflation					
Budget authority	206	212	218	224	231
Outlays	144	210	216	223	229

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).

GAO Contact

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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 and Waste Management (89-0242)
Spending type	Discretionary
Budget subfunction	Atomic energy defense activities
Framework theme	Reassess objectives

The Department of Energy's (DOE) Environmental Management (EM) program oversees and directs all aspects of the agency's nuclear weapons complex clean-ups. DOE has faced criticism about the 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, 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 1996 alone, about $6.2 billion has been targeted for the cleanup program.

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. Although DOE is taking steps to identify the risks associated with its facilities and a few agreements have been renegotiated, DOE still does not have in place an overall strategy to guide this effort.

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, DOE could achieve

significant savings. For example, the Congress may wish to reflect these savings by spending only $5.6 billion a year over the next 5 years, or about 10 percent less than the 1996 funding level.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	616	616	616	616	616
Outlays	444	604	616	616	616
Savings from the 1996 funding level adjusted for inflation					
Budget authority	807	992	1,176	1,367	1,558
Outlays	582	924	1,121	1,310	1,501

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).

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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. 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 the Department of Agriculture (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, legislatively mandated program requirements (particularly cargo preference rules and reexport restrictions) impose constraints on recipients that undermine market development efforts.

Title II of the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 amended the Title I program to provide greater program flexibility, make improvements in operations and administration, and extend authority to enter into new agreements through 2002. Notably, the FAIR Act: (1) authorized agreements with private entities in addition to foreign governments; (2) eliminated the minimum repayment period of 10 years for Title I concessional credits and reduced the maximum grace period from 7 to 5 years; (3) permitted an agricultural trade organization to carry out a project or program in a developing country using funds derived from Title I sales if the organization has a market development plan approved by the Secretary of Agriculture; and (4) simplified the process by which the Secretary determines the commodities eligible for the program.

Despite these reforms and 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 1997.[2] The delay would permit USDA to lower production through an increased acreage set-aside in 1997 which would not build surpluses or otherwise affect the budget.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	0	263	263	263	263
Outlays	0	145	250	263	263
Savings from the 1996 funding level adjusted for inflation					
Budget authority	0	279	286	294	303
Outlays	0	153	269	290	299

Source: Congressional Budget Office.

[2]The savings include $25 million for ocean freight differential costs for the shipment of agricultural commodities.

Related GAO Products

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

Food Aid: Competing Goals and Requirements Hinder Title I Program Results (GAO/T-GGD-95-68, June 26, 1995).

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

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

GAO Contact

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

Authorizing committees	Foreign Affairs (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 in its January 1996 meeting did not vote on the fourth replenishment.

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. An estimate of budgetary savings was not developed because the administration did not

request and the Congress did not provide any funds for IFAD in 1995 and 1996. 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 Affairs (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 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, eliminated some redundant language broadcasts, and closed several shortwave stations. 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 construct a new shortwave station and modernize existing ones. As of September 30, 1995, VOA had spent about $170.7 million of $600 million it planned to spend between 1994 and 2003 on modernization and construction. 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 if the new Pacific Island shortwave station was not constructed.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	8	9	9	9	9
Outlays	2	6	8	9	9
Savings from the 1996 funding level adjusted for inflation					
Budget authority	8	10	10	10	10
Outlays	2	6	9	10	10

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 Affairs (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 the U.S. Information Agency (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 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. The savings that could be achieved if TV Marti were eliminated are shown in the following table.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	3	11	11	11	11
Outlays	2	10	11	11	11
Savings from the 1996 funding level adjusted for inflation					
Budget authority	3	11	12	12	13
Outlays	2	9	11	12	12

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).

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Option: Sell High-Value Property in Tokyo

Authorizing committee	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 U.S. government owns about 3,000 real properties overseas—valued at about $12 billion—some of which could be sold or leased. GAO believes that some high-value properties in Tokyo, Japan, are unneeded. 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 in September 1994, 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's sale. The second residence could be built on government-owned property for $3.8 million, according to a 1991 study conducted for the State Department.

The State Department is permitted to use real property sales proceeds for other facilities' needs without specific OMB or Congressional approval. Therefore, 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. The savings that could be achieved from

selling this property, if relevant laws were changed, are shown in the following table.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Asset Sale					
Budget authority	–4	0	0	0	40
Outlays	–1	–1	–1	–1	40

Note: The estimates shown in the table assume that construction of the new Deputy Chief of Mission residence on the Mitsui compound would cost $4 million and that the sale of the old residence would occur after construction of the replacement residence is completed.

Source: Congressional Budget Office.

Related GAO Products

Overseas Real Estate: Millions of Dollars Could Be Generated by Selling Unneeded Real Estate (GAO/NSIAD-96-36, April 23, 1996).

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

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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 10 reports and testimonies issued since 1991, GAO has expressed concerns about various aspects of the space station, including rising cost estimates that have prompted several redesigns since the project was first funded in fiscal year 1985. In 1993, the station was redesigned again and Russia was brought in as a partner. The National Aeronautics and Space Administration (NASA) believed that Russian participation would improve the station's capabilities and reduce the estimated cost to complete its assembly. Subsequently, annual funding through completion of assembly was capped at about $2.1 billion and the total project cost was capped at $17.4 billion.

In June 1995, GAO reported that NASA was making progress on the space station, but it still had considerable challenges to overcome, including lower financial reserves and significant risk related to the space shuttle's ability to support the space station's launch and assembly schedule. Since then, cost and schedule threats have continued, with the cost threat being particularly severe over the next several years.

The Congress may wish to closely monitor NASA's efforts to manage station development to enable it to act quickly should estimated costs to complete the project increase substantially. Such actions could include acceptance of the cost increases, further reduction in the project's scope, or terminating the project. If the project were terminated, the following savings would result.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	1,444	2,144	2,144	2,144	2,144
Outlays	892	1,817	2,110	2,139	2,143
Savings from the 1996 funding level adjusted for inflation					
Budget authority	1,508	2,272	2,337	2,401	2,467
Outlays	932	1,918	2,275	2,369	2,438

Note: This estimate assumes termination costs of $700 million.

Source: Congressional Budget Office.

Related GAO Products

Space Station: Estimated Total U.S. Funding Requirements (GAO/NSIAD-95-163, June 12, 1995).

Space Station: Plans to Expand Research Community Do Not Match Available Resources (GAO/NSIAD-95-33, November 22, 1994).

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
- Privatize Uranium Enrichment Program
- Privatize the 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

A number of clean coal technology demonstration projects are experiencing problems and difficulties in meeting cost, schedule, and performance goals. DOE has extended deadlines on some projects several times to allow their sponsors to restructure the projects, find suitable alternative project sites, and firm up financing commitments to make the projects economically viable. In April 1995, the Congress rescinded $200 million of this program's budget authority. DOE's fiscal year 1997 budget request calls for an additional $325 million rescission. As of March 1996, three projects totaling about $109 million in unobligated funds had been terminated since the first rescission. Also as of this date, DOE had additional unobligated funds totaling more than $800 million for nine projects facing the types of problems discussed above. This would indicate that more than enough funds may be available to cover a $325 million rescission. If the Congress chose to cut future budget authority by this amount, the following savings could occur.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	325	0	0	0	0
Outlays	0	0	25	50	100
Savings from the 1996 funding level adjusted for inflation					
Budget authority	325	0	0	0	0
Outlays	0	0	25	50	100

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: 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 DOE'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 that the corporation develop a plan to privatize the government's uranium business by July 1995 and that GAO review the plan before it is implemented.

In a September 1995 report, GAO found that the net present value analysis used to develop sales price estimates in the corporation's privatization plan needed to be updated and improved to help the Congress and other decisionmakers considering the sale of the corporation. In addition, GAO's analysis showed that the net present value of the cash flows for the corporation if it remained a government corporation ranged from $2.8 billion to $3.5 billion. GAO also recommended that the privatization process, which will likely set a precedent for future federal sales, be revised to ensure that the Secretary of the Treasury, rather than the corporation, has the lead role. GAO also recommended that the Secretary of the Treasury consider mechanisms in the final sales contract that will protect the government from an undervalued sale.

In April 1996, the President signed into law amendments to the authority to privatize the corporation contained in the Energy Policy Act of 1992. Included in the amendments are provisions regarding the marketing of the natural uranium component of highly enriched uranium derived from Russian warheads. CBO assumes that the corporation will be privatized in fiscal year 1997 as a result of this legislation. According to CBO, the transactions involved in selling the corporation will cost about $150 million, almost all of which would be spent in 1997. Once the corporation is privatized, its net spending will no longer be part of the

federal budget, but the net effect on federal outlays of that change is projected to be small over the period from 1997 through 2001. CBO also estimates that the legislation will result in asset sale receipts of about $1.3 billion in 1997 from selling the corporation and $187 million over fiscal years 1997 through 1999 from selling certain amounts of natural uranium derived from Russian highly enriched uranium. Under the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, proceeds from asset sales are not counted in determining compliance with the discretionary spending limits or the pay-as-you-go requirement established under BEA.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Asset sales					
Budget Authority	1,355	65	67	0	0
Outlays	1,355	65	67	0	0

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level adjusted for inflation					
Budget authority	0	0	0	0	0
Outlays	–156	–133	–176	120	191

Source: Congressional Budget Office.

Related GAO Products

Uranium Enrichment: Process to Privatize the U.S. Enrichment Corporation Needs to Be Strengthened (GAO/RCED-95-245, September 14, 1995).

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).

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Option: Privatize the 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.

In last year's option, we suggested the Congress consider amending the NPR Production Act of 1976 to provide DOE with the flexibility to operate NPR-1 in a way that would maximize the value of the asset rather than maximize the production of oil. Since that time, the Defense Authorization Act (Public Law 104-106) established a schedule for selling NPR-1 within two years after the date of enactment. Under the act, however, the sale cannot go forward if DOE and OMB determine at any point in the process that an option other than the immediate sale of the reserve is in the best interest of the United States or that the proceeds are unlikely to reflect the reserve's fair market value. Accordingly, CBO did not provide a 5-year estimate at this time.

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 in the foreseeable future. By the end of 1996, the reserve will have over 100 million barrels of excess storage capacity spread out over four storage sites. DOE is considering leasing excess capacity to foreign governments, which would require new statutory authority. Another option would be to consolidate the oil at fewer sites and close sites no longer needed. 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 is in the process of closing a former 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, one site could be mothballed and not reopened in addition to the site already being decommissioned under current policy. 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. Assuming such costs are financed from the proceeds of oil sales, the table that follows shows that net operations savings would begin in fiscal year 1997.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	9	9	26	26	26
Outlays	5	8	18	23	26
Savings from the 1996 funding level adjusted for inflation					
Budget authority	18	26	52	61	70
Outlays	10	20	39	53	65

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
- Charge fair market value for natural resources
- Recreation fees at federal sites
- Hardrock mining royalties
- Natural resources revenue sharing
- 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 about 650 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 124 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.

The Congress is considering several bills that address patenting of hardrock mining claims. Two companion bills (H.R. 1580 and S. 506) would repeal the current congressional proscription against new mining patents. Three other bills (H.R. 357 and its companion S. 504, as well as H.R. 721) would eliminate patenting of mining claims. Under a

sixth bill (S. 639), patenting would grant the claimholder title to the mineral only.

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.

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.

Currently, the Congress is considering several bills that would reform concession policies. All of these bills would increase the return to the government by limiting preferential rights of renewal thus increasing competition. H.R. 773 and S. 309 would allow agencies to receive increased fee revenue. H.R. 2028, which was included in the fiscal year 1996 omnibus budget reconciliation bill (H.R. 2491) would have increased fees up to a minimum amount credited to the Treasury and all fees above that level go to agencies.

CBO has estimated that the fee provisions included in H.R. 2028 would result in $79 million in budgetary savings over 7 years. The following savings would be scored if these provisions were estimated for the 5-year budget window.

Five-Year Savings

Dollars in millions	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	0	0	5	10	15
Outlays	0	0	5	10	15
Savings from the 1996 funding level adjusted for inflation					
Budget authority	0	0	5	10	15
Outlays	0	0	5	10	15

Source: Congressional Budget Office.

Related GAO Products

Land Ownership

Land Ownership: Information on the Acreage, Management, and Use of Federal and Other Lands (GAO/RCED-96-40, March 13, 1996).

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

NPS Projected Returns From Concessionaires (GAO/RCED-96-48R, November 28, 1995).

National Parks: Difficult Choices Need to Be Made About the Future of the Parks (GAO/RCED-95-238, August 30, 1995).

Federal Lands: Views on Reform of Recreation Concessionaires (GAO/T-RCED-95-250, July 25, 1995).

National Parks: Difficult Choices Need to Be Made About the Future of the Parks (GAO/T-RCED-95-124, March 7, 1995).

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), Fish and Wildlife Service within Interior, and the Forest Service within Agriculture—have prepared or are preparing a streamlined plan showing potential reductions and restructuring of their workforces. 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) potentially 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) sharing 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

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

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

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

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Option: Federal Timber Sales

Authorizing committees	Agriculture, Nutrition and Forestry (Senate) Agriculture (House)
Appropriation 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

The Department of Agriculture's Forest Service does not always recover all of its timber-related costs from the sale of timber. Currently, the Service receives most of its timber funding from timber sales and from appropriated funds linked primarily to timber management and harvest.

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. According to the Forest Service's fiscal year 1994 Timber Sale Program Annual Report—the latest available report—timber sale program costs exceeded revenues by about $66 million when payments to states are considered as costs of the program.

The escalating costs of the Forest Service's timber sale program has long been a concern of the Congress. In response to this concern, the Forest Service has taken efforts to achieve cost efficiencies and is reviewing its policy regarding below-cost timber sales. The primary objective of some timber sales is to achieve forest stewardship objectives such as forest health—generating revenues is secondary. However, notwithstanding these types of timber sales, at some forests, the costs to prepare and administer timber sales still exceed total receipts.

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. This also would 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

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	20	35	50	65	75
Outlays	15	30	45	60	70
Savings from the 1996 funding level adjusted for inflation					
Budget authority	20	35	50	65	75
Outlays	15	30	45	60	70

Source: Congressional Budget Office.

Related GAO Products

Forest Service: Observations on the Emergency Salvage Sale Program (GAO/T-RCED-96-38, November 29, 1995).

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

Forest Service: Status of Efforts to Achieve Cost Efficiency (GAO/RCED-94-185FS, April 26, 1994).

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).

GAO Contact

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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.

According to the Thoreau Institute, charging fair market value for all uses, including timber, grazing, recreation, and minerals and subsequently funding forests, parks, and public lands out of the net income would save taxpayers more than $21 billion over 5 years. No more funds would be appropriated for these uses.

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).

GAO Contact

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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 Park 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 fiscal year 1996 appropriations legislation for the Park Service, as well as some other land management agencies, included language that permits these agencies to experiment with increased entrance fees at a number of locations. In addition, legislation has been introduced in the Congress to authorize higher fees throughout the Park Service.

Requiring the Park Service to charge fees to cover direct as well as associated costs and disallowing their use for increased park spending would yield net new receipts over the fiscal year 1997 through 2001 period as shown in the following table. Any spending increases resulting from increased fees would be subject to new authorizing legislation.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Added receipts	10	15	23	28	37

Source: Congressional Budget Office.

Related GAO Products

National Parks: Difficult Choices Need to Be Made About the Future of the Parks (GAO/RCED-95-238, August 30, 1995).

National Parks: Difficult Choices Need to Be Made About the Future of the Parks (GAO/T-RCED-95-124, March 7, 1995).

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).

GAO Contact

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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 is considering several bills that would impose royalties on hardrock minerals extracted from federal lands. H.R. 1580 and S. 506 would impose a royalty of 3 percent of the net proceeds for mines grossing at least $500,000 annually. Two other bills (H.R. 721 and S. 504) would impose a royalty fee of 8 percent of the gross income. H.R.357, the companion bill to S. 504, would impose a royalty of 8 percent of the net smelter return. Another bill, S. 639, would assess royalties for gold at 3 percent of the gross value, and for minerals other than gold at 2 percent of the gross value.

Assuming that the Congress adopted an 8-percent royalty on gross profits, CBO estimates that the following receipts would be gained. CBO's estimate reflects a reduction since 1990 in the expected amount of hardrock minerals produced on federal lands.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Added receipts	8	53	31	31	31

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).

GAO Contact

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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.

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

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	190	195	200	200	205
Outlays	145	190	195	195	200
Savings from the 1996 funding level adjusted for inflation					
Budget authority	190	195	195	200	200
Outlays	145	190	195	195	200

Source: Congressional Budget Office.

Related GAO Products

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

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).

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 to which it is entitled 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 ultimately may be recovered by 2030, the dollars that eventually flow to the Treasury could be worth much less than if they had been repaid sooner. The Congress may wish to accelerate the repayment schedule.

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 added receipts shown in the tables below would be achieved if the Congress collected full cost of federally subsidized water to large farms, required CVP irrigators to repay the costs of the CVP by 2013 (roughly half the time required under current law), and/or phased out the interest subsidy for Western irrigators.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Option: Increased fees for subsidized water					
Added receipts	4	8	8	8	8

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Option: Repayment of water project construction costs					
Added receipts	2	8	11	11	11

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions	FY97	FY98	FY99	FY00	FY01
Option: Federal water subsidies					
Added receipts	4	14	19	19	19

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 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, 1996. Rates range from $0.65 per pound for the least toxic pollutant to $63.40 per pound for the most toxic pollutant. Over time, revenue from a pollution fee tax should decline since the intent of such a tax is to provide an incentive to reduce the amount of pollutants generated.

Five-Year Revenues

Dollars in billions

	FY97	FY98	FY99	FY00	FY01
Revenue gain	0.3	0.5	0.5	0.4	0.4

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

Source: Joint Committee on Taxation (JCT).

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 cleanup costs incurred from activities such as administrative management, research and development on cleanup 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

	FY97	FY98	FY99	FY00	FY01
Added receipts	18	36	54	72	91

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).

GAO Contact

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350 Agriculture

- Reduce or eliminate funding for the Market Access Program
- Reduce funding for the Export Credit Guarantee Programs

Option: Reduce or Eliminate Funding for the Market Access 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

Under the Agriculture Trade Title (Title II) of the Federal Agriculture Improvement and Reform (FAIR) Act of 1996, the Congress changed the name of the Market Promotion Program to the Market Access Program. The Market Access Program is an export promotion program that subsidizes overseas promotional activities for U.S. agricultural products. The program uses government funds to help U.S. producers, exporters, and trade associations finance cost-share promotional activities for U.S. agricultural products abroad. The Foreign Agricultural Service (FAS) operates the Market Access Program through 65 not-for-profit associations that either run the programs themselves or pass funds through to other entities.

Adequate assurance does not exist to demonstrate that Market Access Program funds are supporting additional promotional activities rather than simply replacing company/industry funds. Moreover, FAS has not provided adequate guidance or oversight in targeting Market Access Program funds to smaller and new-to-export industries which are less likely to supplant them.

Under Title II of the FAIR Act, the Congress cut annual program funding from $110 million to $90 million for fiscal years 1996 through 2002. The legislation also prohibits program funding for direct assistance of branded promotions from being provided to foreign companies for promotion of foreign produced products or to companies that are not recognized as small business concerns under the Small Business Act, with the exception of cooperatives and nonprofit trade associations.

Nevertheless, additional future savings could be achieved if the Congress further reduced or eliminated the program. Based on our examinations of the program since its inception, we recommend continued monitoring to ensure that executive and legislative branch reforms are effectively and

efficiently implemented, particularly those pertaining to funding additionality, graduation of private companies out of the program, and greater small company participation. Even with the FAIR Act reforms, the Congress could cut annual Market Access Program funding by an additional $40 million, to a $50 million level for fiscal years 1997 through 2002.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level adjusted for inflation					
Budget authority	3	31	40	40	40
Outlays	3	31	40	40	40

Source: Congressional Budget Office.

Related GAO Products

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

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

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

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

GAO Contact

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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 is required to make a total of $5.5 billion in government loan guarantees available each year to foreign country buyers of U.S. agricultural commodities.

Since the programs began in the 1980s, and as of December 1995, the government had paid out approximately $7.6 billion in claims because of loan repayment defaults and reschedulings 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 for 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.

The Agriculture Trade Provisions (Title II) of the Federal Agriculture Improvement and Reform (FAIR) Act of 1996 reformed the operations of the Export Credit Guarantee Programs. Notably, the FAIR Act: (1) authorized short-term supplier credit guarantees; (2) listed criteria to be used by the Secretary of Agriculture in deciding whether a country is creditworthy for intermediate-term credit guarantees; (3) mandated annual program levels at $5.5 billion through 2002 but allowed for flexibility in how much is provided for each program; (4) clarified that the 1 percent maximum origination fee is to be applied to the amount of short-term credit to be guaranteed and removed the cap on the origination fee charged for Commodity Credit Corporation Facilities Financing Guarantees; and (5) permitted the use of credit guarantees for high-value

products with at least 90 percent U.S. content by weight. Minimum amounts of credit guarantees will be required to be available for processed and high-value products: 25 percent in 1996 and 1997; 30 percent in 1998 and 1999; and 35 percent thereafter. Minimum requirements are not applicable if they cause a reduction in total commodity sales under the program.

It is unclear that the export credit guarantee programs have 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.

Although reforms will allow USDA to improve its management of the programs, additional steps are still necessary. 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 annual loan guarantees to $3.3 billion, about $1 billion 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. The 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

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level adjusted for inflation					
Budget authority	91	146	144	143	148
Outlays	91	146	144	143	148

Source: Congressional Budget Office.

Related GAO Products

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

Former Soviet Union: Creditworthiness of Successor States and U.S. Export Credit Guarantees (GAO/GGD-95-60, February 24, 1995).

GSM Export Credit Guarantees (GAO/GGD-94-211R, September 29, 1994).

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).

GAO Contact

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370 Commerce and Housing Credit

- National Oceanic and Atmospheric Administration research fleet modernization
- Opportunities to reduce the cost of the 2000 decennial census

Option: National Oceanic and Atmospheric 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, GAO reported on the National Oceanic and Atmospheric Administration's (NOAA) fleet modernization plan. As reported, 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 a potentially cost-effective alternative 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).

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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 by the Bureau. Census Bureau estimates suggest that the use of these options could result in savings 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, improves 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 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 1994 legislation (Public Law 103-430). To realize these savings, the Census Bureau estimated in 1995 that it would incur costs of about $5.1 million in 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 change. However, the Census Bureau should require 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 an interim year baseline would be inappropriate.

To illustrate the potential savings, CBO estimates that using sampling for nonresponse follow-up for the 2000 Decennial Census could result in the following savings.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Budget authority	0	0	150	600	0
Outlays	0	0	119	506	125

Source: Congressional Budget Office.

Related GAO Products

Decennial Census: Fundamental Design Decisions Merit Congressional Attention (GAO/T-GGD-96-37, October 25, 1995).

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

- 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
- Target military airport program funds within the national airport system
- Enhance Department of Transportation's oversight of its university research

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 approximately 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.

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.[3]

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	503	503	503	503	503
Outlays	373	473	490	495	498
Savings from the 1996 funding level adjusted for inflation					
Budget authority	515	529	544	559	575
Outlays	380	495	526	545	563

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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[3]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 $2 million and $20 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, the safety of U.S. passengers and property, and enforcement of immigration laws, 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 United States 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 INS exemption.

Five-Year Savings

Dollars in millions	FY97	FY98	FY99	FY00	FY01
Added receipts					
Option: Coast Guard fees	0.4	1.0	1.0	1.0	1.0
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

Section 403(b) of the Rail Passenger Service Act authorizes Amtrak to initiate and/or operate intercity rail services, in addition to its basic system, when such services are financially supported by the states. As of January 1996, Amtrak had contracts with 11 states to operate such service over 15 routes.[4] These operations account for about 15 percent of Amtrak's ridership. Under the provisions of the Rail Passenger Service Act, the states contribute at least 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. Although long-term avoidable losses are a larger amount than short-term avoidable losses, they are only about 55 percent of losses that are based on fully allocated costs—including capital costs. The states do pay 50 percent of the capital equipment costs (primarily depreciation and interest) associated with section 403(b) service.

In fiscal year 1994, Amtrak sustained about $82.2 million in losses on section 403(b) services and this increased to $88.2 million in fiscal year 1995. The states receiving section 403(b) services contributed $32.6 million in 1994 and $35.7 million in 1995. These amounts are consistent with Amtrak's experience in recent years. However, Amtrak is planning to substantially increase the share of section 403(b) service losses that the individual states will bear. In fiscal year 1996, Amtrak plans to collect $72.6 million in state contributions to cover section 403(b) losses. At the end of the first quarter of fiscal year 1996, Amtrak was slightly ahead of its

[4]These states were Alabama, California, Illinois, Michigan, Missouri, New York, North Carolina, Wisconsin, Oregon, Washington, and Vermont.

target. Amtrak plans to eventually recover the fully allocated losses from section 403(b) services, but has not yet secured the states' agreement.

The Congress could elect to require that the states reimburse Amtrak for the fully allocated costs of providing section 403(b) services. While this is Amtrak's goal, supporting legislation would pave the way for fully allocated loss reimbursement. Currently, Amtrak must negotiate reimbursement with each state and the state contributions vary widely. On the basis of Amtrak's experience in recent years (as opposed to its plan for the current year) the following savings would apply if federal subsidies were reduced by the estimated 403(b) losses that Amtrak now must absorb.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	82	82	82	82	82
Outlays	82	82	82	82	82
Savings from the 1996 funding level adjusted for inflation					
Budget authority	84	87	89	92	94
Outlays	84	87	89	92	94

Source: Congressional Budget Office.

Related GAO Product

Intercity Passenger Rail: Amtrak's Financial and Operating Conditions Threaten Its Long-term 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 deteriorated rapidly in the first half of the decade, seriously threatening Amtrak's ability to provide high-quality passenger rail service nationwide. The time has come for Amtrak and the federal government 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, Amtrak has developed a strategic and business plan that is designed to eliminate the need for federal operating subsidies by the year 2002. To facilitate the proposed changes, Amtrak has been reorganized into strategic business units (SBU) which are responsible for different "product lines." The West Coast SBU is responsible for operations in California, Washington, and Oregon; the Northeast Corridor SBU is responsible for the Metroliners and other operations between Washington and Boston; and the Intercity SBU has responsibility for the remaining rail passenger operations. The parent SBU in Washington, D.C., handles the corporate operations, such as legal affairs and national advertising, that transcend the geographic areas covered by the SBUs. Amtrak believes that decentralization of authority and responsibility, combined with route, service, and fare changes, will allow it to achieve operating self-sufficiency. However, Amtrak's plan is predicated on continued availability of federal funds for capital improvements, greater state support for 403(b) services, and significant productivity savings. While Amtrak reports that its efforts to date are on target with its longer-term goal, it remains to be seen whether it can achieve self-sufficiency if its assumptions are not wholly fulfilled.

If substantially increasing the level of federal funding for Amtrak, especially for capital investments, is not possible in today's budgetary environment, 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 cannot 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: Amtrak's Financial and Operating Conditions Threaten Its 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: Target 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 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 further limit participation. In extending authorization for AIP in 1994, the Congress limited participation to those airports located in FAA-defined congested airports with more than 20,000 hours of annual delays. The Congress also could limit participation to those airports 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 also would 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 MAP as shown in the table below.

Five-Year Savings

Dollars in millions	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	26	26	26	26	26
Outlays	5	16	21	24	25
Savings from the 1996 funding level adjusted for inflation					
Budget authority	27	28	28	29	30
Outlays	5	16	22	26	28

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 is responsible for reviewing and monitoring its own research to ensure that the university awards' objectives are met and the costs are appropriate.

While DOT's spending on research at universities has grown significantly 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, a lack of oversight on some university awards led to overcharges of almost $450,000 and unpaid cost-sharing totaling $3 million in a sample of awards reviewed in detail. More effective planning and management of the research program could reduce costs by limiting duplicate research and ensuring that recipients follow award guidelines on allowable costs and cost sharing.

As GAO recommended last year, DOT has completed the development of a departmentwide database to track the purpose and costs associated with each university research award. GAO continues to recommend that DOT 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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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 numerous reports and testimonies commenting on federal employment and training programs. Most recently, GAO identified more than 150 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 House and the Senate have passed bills that would consolidate many of the federally funded employment training programs. The House bill creates three block grants by consolidating 74 employment training programs and eliminating 52 higher education programs. The Senate bill consolidates 83 programs into a single block grant.

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

	FY97	FY98	FY99	FY00	FY01
Option: Disadvantaged adults					
Direct spending					
Savings from the 1996 funding level adjusted for inflation					
Budget authority	136	68	54	41	30
Outlays	71	27	24	11	0

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions	FY97	FY98	FY99	FY00	FY01
Option: Disadvantaged adults					
Discretionary spending					
Savings from the 1996 funding level					
Budget authority	182	182	182	182	182
Outlays	13	158	180	182	182
Savings from the 1996 funding level adjusted for inflation					
Budget authority	188	193	199	204	210
Outlays	14	163	191	198	204

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions	FY97	FY98	FY99	FY00	FY01
Option: Dislocated workers					
Direct spending					
Savings from the 1996 funding level adjusted for inflation					
Budget authority	13	11	13	10	10
Outlays	6	10	12	11	10

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions	FY97	FY98	FY99	FY00	FY01
Option: Dislocated workers					
Discretionary spending					
Savings from the 1996 funding level					
Budget authority	114	114	114	114	114
Outlays	8	81	108	114	114
Savings from the 1996 funding level adjusted for inflation					
Budget authority	117	121	124	128	131
Outlays	9	83	114	123	127

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: Basic Program Data Often Missing (GAO/T-HEHS-94-239, September 28, 1994).

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

Department of Labor: Rethinking the Federal Role in Worker Protection and Workforce Development (GAO/T-HEHS-95-125, April 4, 1994).

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

Multiple Employment Training Programs: Most Federal Agencies Do Not Know If Their Programs Are Working Effectively (GAO/HEHS-94-88, March 2, 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).

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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. In fiscal year 1995, Medicaid's drug benefit cost more than $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. The Department of Health and Human Services (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

Medicare and Medicaid: Opportunities to Save Program Dollars by Reducing Fraud and Abuse (GAO/T-HEHS-95-110, March 22, 1995).

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

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	Grant to States for Medicaid (75-0512)
Spending type	Direct
Budget subfunction	Health care services
Framework theme	Reassess objectives

GAO raised a concern that in fiscal year 1993 Michigan, Texas, and Tennessee used illusory financing approaches to obtain about $800 million in federal Medicaid funds without effectively committing their share of matching funds. Under these approaches, facilities that received increased Medicaid payments from the states, in turn, paid the states almost as much as they received. Consequently, the states realized increased revenue that was used to reduce their state Medicaid contributions, fund other health care needs, and supplement general revenue funding. For the period from fiscal year 1991 to fiscal year 1995, Michigan alone reduced its share of Medicaid costs by almost $1.8 billion through financing partnerships with medical providers and local units of government. GAO's analysis of Michigan's transactions last year showed that even though legislation curtailed certain creative financing practices, the state was able to reduce its share of Medicaid costs at the expense of the federal government by $428 million through other mechanisms.

The practices that involve payments to state-owned facilities are 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

State Medicaid Financing Practices (GAO/HEHS-96-76R, January 23, 1996).

Michigan Financing Arrangements (GAO/HEHS-95-146R, May 5, 1995).

Medicaid: States Use Illusory Approaches to Shift Program Costs to the Federal Government (GAO/HEHS-94-133, 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	Grant 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 government and the states share the financing of the program. Under current law, the federal commitment is open-ended: federal outlays rise with the costs and use of Medicaid services. The federal share of the program costs varies with the per capita income of the state. Consequently, high-income states pay a larger share of the benefits than low-income states. By law the federal share can be no less than 50 percent and no more than 83 percent.

Since 1986, GAO has issued numerous reports and testimonies that identify ways in which the fairness of federal grant formulas could be improved. With respect to Medicaid, GAO believes that the fairness of the matching formula in the open-ended program could be improved by replacing the per capita income factor with two factors—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 with the most generous benefits, the fewest low-income people in need, and the greatest ability to fund benefits from state resources. These changes could redirect federal funding to states with the highest concentration of people in poverty and the least capability of funding these needs from state resources.

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	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level adjusted for inflation					
Budget authority	5,430	5,990	6,550	7,160	7,850
Outlays	5,430	5,990	6,550	7,160	7,850

Source: Congressional Budget Office.

Related GAO Products

Medicaid: Matching Formula's Performance and Potential Modifications (GAO/T-HEHS-95-226, July 27, 1995).

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

GAO Contact

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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 that states implement drug utilization review (DUR) programs in their 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 most of the states now have or are planning to acquire these systems. Automated systems for prospective DUR reviews reduce Medicaid program costs in two ways: (1) by canceling 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 canceled during this period exceeded $6.7 million.

Although most states plan to have automated prospective DUR systems, states have implemented these systems differently. The absence in some states of some types of drug therapy reviews, such as those for pregnancy conflict (use of prescribed drug is not recommended during pregnancy) and underutilization (an indication of noncompliance with a prescribed drug regimen), could have dramatic effects on patient safety. Also, whether or not states automatically deny early refill claims (request for prescription refill before a predetermined amount of a drug—such as

75 percent—has been consumed) can substantially affect the relative amount of the savings and the prevention of potential waste, fraud, and abuse. Given both the substantial safety benefits that can accrue to Medicaid recipients and savings to the Medicaid program through the effective use of automated prospective DUR systems, the Health Care Financing Administration could assist the states in coordinating and sharing experiences and best practices for the implementation and use of these systems.

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).

GAO Contact

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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

	FY97	FY98	FY99	FY00	FY01
Option: Reduce to 6-percent adjustment factor					
Outlays	886	947	1,018	1,093	1,171
Option: Reduce to 3-percent adjustment factor					
Outlays	2,491	2,664	2,864	3,076	3,295

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, GAO 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.

The Congress has proposed Medicare reforms that would increase funding for Medicare program safeguard activities. For the fiscal year 1996 congressional proposal, CBO estimated a net savings of over $3 billion for increasing Medicare, HHS office of Inspector General, and Federal Bureau of Investigations resources to identify and pursue individuals or entities that defraud federal health care programs.[5] Though this proposal passed in

[5]In prior years, CBO did not score increases in such funding because the proposals violated rules (established in the conference report on the Omnibus Budget Reconciliation Act of 1993) that preclude attributing changes in mandatory spending to changes in discretionary funding for program administration. That prohibition did not apply to these proposals, however, because they would establish long-term mandatory appropriations to cover all of the enforcement activities proposed.

the Congress, the President vetoed it as part of the broader fiscal year 1996 budget reconciliation package.

Related GAO Products

Funding Anti-Fraud and Abuse Activities (GAO/HEHS-95-263R, September 29, 1995).

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, providers' unit costs often are high because of large capital expenditures and low initial utilization rates. When Medicare sets its payment rates for these new technologies, the rates typically are based on the high initial unit costs. Over time, providers' unit costs decline as equipment improves, 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 adjusting its fee schedule payment rates to reflect the declining unit costs.

The Congress has reacted to the identification of specific overpaid procedures and services by legislatively reducing rates. For example, payments have been reduced for overpriced surgeries, selected items of durable medical equipment, MRI scans, and intraocular lenses. The Administration also has proposed legislation to use competitive acquisition, rather than the fee schedule, for selected services such as MRI scans. 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 revising the Medicare fee schedule potentially encompasses all procedures, and any savings would depend on the particular technologies for which Medicare payment rates are reduced.

Related GAO Products

Medicare Spending: Modern Management Strategies Needed to Curb Billions in Unnecessary Payments (GAO/HEHS-95-210, September 19, 1995).

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

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

Medicare: Further Changes Needed to Reduce Program and Beneficiary Costs (GAO/HRD-91-67, May 15, 1991).

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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), the 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 for two reasons. First, 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. Second, in many areas Medicare's 5 percent "discount" from fee-for-service costs is too modest. By failing to reflect local market conditions and greater HMO efficiencies, the capitation rate causes Medicare to overpay HMOs.

GAO has suggested that Medicare address the problem of overpayments to HMOs by pursuing three promising strategies. These strategies include fostering price competition among HMOs through competitive bidding, improving the risk adjusters' accuracy, and making adjustments to the current formula to reflect market competition and HMOs' local health care costs. These strategies should be pursued concurrently since any one

strategy will not emerge as best for all areas. Market conditions vary too much and in important ways, even among metropolitan areas.

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

Related GAO Products

Medicare Managed Care: Growing Enrollment Adds Urgency to Fixing HMO Payment Problem (GAO/HEHS-96-21, November 8, 1995).

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 1994, non-AFDC caseloads and costs have risen 340 percent and 600 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 1994, for example, state fee practices returned $33 million of the $1.1 billion 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, GAO believes 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 recover almost all of 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, 1996.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level adjusted for inflation					
Budget authority	605	655	705	760	815
Outlays	605	655	705	760	815

Source: Congressional Budget Office.

Related GAO Products

Child Support Enforcement: Opportunity to Reduce Federal and State Costs (GAO/T-HEHS-95-181, June 13, 1995).

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).

GAO Contact

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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 was discontinued at the end of fiscal year 1995 but the Congress may extend it as part of welfare reform. The federal government now reimburses states' costs to develop and operate these systems at the 66-percent rate established for administrative expenses.

GAO work shows that beginning in fiscal year 1996, the states could begin spending 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 the savings shown in the following table.

Five-Year Savings

Dollars in millions	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level adjusted for inflation					
Budget authority	50	55	60	65	70
Outlays	50	55	60	65	70

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 agencies	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, 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 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 over $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	Discretionary/Direct
Framework theme	Improve efficiency

GAO 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.

The 1996 Agriculture Appropriations Act consolidated The Emergency Food Assistance Program (TEFAP), Soup Kitchens/Food Banks (SKFB) and Commodity Supplemental Food Program (CSFP) into one account. However, the recently enacted Federal Agriculture Improvement and Reform (FAIR) Act of 1996 continues to authorize these programs separately.

To illustrate how savings could be achieved, consolidating these three commodity food assistance programs 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 funding currently provided the states for administering the programs. Total appropriations for these programs for fiscal year 1996 were $166 million, of which $49 million went to states for administering the programs. The following table reflects the savings that could be achieved from this option.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	49	49	49	49	49
Outlays	40	49	49	49	49
Savings from the 1996 funding level adjusted for inflation					
Budget authority	50	52	53	55	56
Outlays	42	52	53	55	56

Source: Congressional Budget Office.

Related GAO Products

Food Assistance: Alternatives for Delivering Benefits (GAO/T-RCED-95-202, May 23, 1995).

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 (RCED-78-113, June 13, 1978).

GAO Contact

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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 agencies	Social Security Administration, and Department of Health and Human Services
Accounts	
Social Security Administration	Federal Old-Age and Survivors Insurance Trust Fund (20-8006) Federal Disability Insurance Trust Fund (20-8007)
Department of Health and Human Services	Federal Supplementary Medical Insurance Trust Fund (20-8004) Federal Hospital Insurance Trust Fund (20-8005)
Spending type	Discretionary/Direct
Budget subfunctions	Social Security and Medicare
Framework theme	Improve efficiency

Since 1987, the Social Security Administration (SSA) has completed less than half of the continuing disability reviews (CDRs) required by law for the Disability Insurance (DI) program. As a result, in 1995 the DI backlog for such reviews for disabled workers had reached 1.5 million cases. These reviews determine whether DI beneficiaries no longer are disabled and thus may be removed from the rolls. According to SSA, CDRs reduce outlays by $90,000—in lifetime DI benefits and Medicare benefits—for every ineligible individual removed from the rolls.

While SSA has taken steps to improve the payoff from the disability reviews it performs, GAO believes that SSA should continue to examine ways to increase the number of such reviews and to make existing reviews more efficient. The Congress has introduced legislation to establish a revolving fund in the DI trust fund to finance all SSA disability reviews. The proposed Senior Citizens' Right to Work Act of 1995 would have provided funding for 7 years, enabling SSA to conduct the overdue reviews and remove recipients who no longer are disabled from the rolls.

Related GAO Products

Social Security Disability: Management Action and Program Redesign Needed to Address Long-Standing Problems (GAO/T-HEHS-95-223, August 3, 1995).

Disability Insurance: Broader Management Focus Needed to Better Control Caseload (GAO/T-HEHS-95-164, May 23, 1995).

Social Security: Federal Disability Programs Face Major Issues (GAO/T-HEHS-95-97, March 2, 1995).

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

Social Security: Continuing Disability Review Process Improved, But More Targeted Reviews Needed (GAO/T-HEHS-94-121, March 10, 1994).

Social Security: Disability Rolls Keep Growing, While Explanations Remain Elusive (GAO/HEHS-94-34, February 8, 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
- Veterans' disability compensation for nonservice 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	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Option: Recovery of 25 percent of costs					
Budget authority	350	350	350	350	350
Outlays	315	350	350	350	350
Option: Recovery of 50 percent of costs					
Budget authority	700	700	700	700	700
Outlays	630	700	700	700	700

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level adjusted for inflation					
Option: Recovery of 25 percent of costs					
Budget authority	364	379	394	410	426
Outlays	328	378	393	408	424
Option: Recovery of 50 percent of costs					
Budget authority	728	758	789	820	851
Outlays	655	755	786	817	848

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 Costs By Adopting State Copayment Practices (GAO/HRD-92-96, August 12, 1992).

GAO Contact

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Option: Veterans' Disability Compensation for Nonservice 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 1995, CBO reported that about 230,000 veterans were receiving about $1.5 billion annually in VA compensation for these diseases. GAO's study of five countries shows that those countries do not compensate veterans under such 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

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level adjusted for inflation					
Budget authority	16	48	83	120	158
Outlays	14	45	80	128	142

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 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. For fiscal year 1996, GSA's markups had increased to 22 percent and 35 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 developed in fiscal year 1995 and used again this year, the difference is still significant and reflects the higher costs associated with maintaining and operating a large depot distribution system.

In fiscal year 1992, 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) permits agencies to use supply sources other than depots for purchases under $5,000, which GSA estimated includes 99 percent of all potential purchases, (2) has 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.

The Congress could consider requiring 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

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level adjusted for inflation					
Budget authority	23	48	73	75	78
Outlays	17	41	67	75	77

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 and 1995, 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. Seigniorage 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

	FY97	FY98	FY99	FY00	FY01
Revenue gains	0	0	0	80	110

Source: Congressional Budget Office.

Related GAO Products

A Dollar Coin Could Save Millions (GAO/T-GGD-95-203, July 13, 1995).

1-Dollar Coin: Reintroduction Could Save Millions If It Replaced the 1-Dollar Note (GAO/T-GGD-95-146, May 3, 1995).

1-Dollar Coin: Reintroduction Could Save Millions if Properly Managed (GAO/GGD-93-56, March 11, 1993).

National Coinage Proposals: Limited Public Demand for New Dollar Coin or Elimination of Pennies (GAO/GGD-90-88, May 23, 1990).

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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 Courthouse Construction: More Disciplined Approach Would Reduce Costs and Provide for Better Decisionmaking (GAO/T-GGD-96-19, November 8, 1995).

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
- 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. GAO reviewed five agencies—the Federal Aviation Administration, the Customs Service, and the Departments of Defense, Justice, and Veterans Affairs—which are among the most frequent payers of Sunday premium pay in the federal government. Using leave information provided by these five agencies for fiscal year 1994, we estimated that $17.9 million of the $146.1 million in Sunday premium pay was paid to employees on leave.

The House Committee on Appropriations' Subcommittee on Transportation and Related Agencies included a provision in the Department of Transportation's (DOT) fiscal year 1995 appropriation that precluded DOT from paying premium pay for Sundays not actually worked. GAO addressed this issue governmentwide in a 1995 report. We suggested that to preclude federal employees from receiving Sunday premium pay while on leave and to reduce governmentwide employment costs, the Congress may wish to consider requiring that employees actually must work on Sunday to receive Sunday premium pay.

Related GAO Product

Sunday Premium Pay: Millions of Dollars in Sunday Premium Pay Are Paid to Employees on Leave (GAO/GGD-95-144, May 19, 1995).

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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).

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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/Direct
Budget subfunctions	Multiple
Framework theme	Reassess objectives

The Davis-Bacon Act requires that workers on federally-funded or federally-assisted construction projects be paid wages at or above levels determined by the Department of Labor to be prevailing in 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	FY97	FY98	FY99	FY00	FY01
Direct Spending					
Savings from the 1996 funding level adjusted for inflation					
Budget authority	41	31	28	28	28
Outlays	13	32	34	31	29

Note: CBO has identified some direct spending savings from the repeal of the Davis-Bacon Act, including a reclassification of about $2 billion in federal aid to highways in fiscal year 1996.

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions	FY97	FY98	FY99	FY00	FY01
Discretionary spending					
Savings from the 1996 funding level					
Budget authority	725	725	725	725	725
Outlays	163	418	558	631	675
Savings from the 1996 funding level adjusted for inflation					
Budget authority	736	758	780	802	826
Outlays	166	421	571	658	720

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

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 funding level					
Budget authority	2	3	5	6	7
Outlays	2	3	5	6	7
Savings from the 1996 funding level adjusted for inflation					
Budget authority	2	4	6	8	11
Outlays	2	4	7	8	10

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).

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Option: Use Uncosted Obligations to Offset Future Budget Needs

Authorizing comittees	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 1995, uncosted obligations totaled about $7.5 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 Management and Defense Programs—identified over $500 million in unneeded funds.

GAO believes that additional uncosted funds are available because the scope of our reviews so far has focused primarily on two major accounts—Defense Programs and Environmental Management—that account for about $3.2 billion in uncosted balances. Other programs, such as energy research, also hold large balances. Future appropriations could be reduced to reflect these unused funds.

The Congress may wish to consider reducing fiscal year 1997 appropriations to reflect these unused funds. Based upon our last three audits, reducing appropriations by $500 million in fiscal year 1997 could achieve the following savings.[6]

[6]The budget authority amount is a GAO estimate. The corresponding outlays are computed using CBO spendout rates.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Savings from the 1996 Defense Plan					
Budget authority	500	0	0	0	0
Outlays	300	164	36	0	0

Source: Congressional Budget Office.

Related GAO Products

DOE's Fiscal Year 1994 Uncosted Balance (GAO/RCED-95-263R, August 7, 1995).

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 effective loan origination, account servicing, collection, and write-off procedures as initially specified by the Office of Management and Budget (OMB) in its nine-point credit management program and currently contained in OMB Circular A-129.

GAO has reported several times that agencies have not effectively managed their debt collection programs. For example, agencies do not always screen applicants for delinquent federal debt before approving new loans or guarantees. Further, some agencies have failed to fully use the authorities available for collecting debt. To expand and strengthen federal agency debt collection procedures and authorities, the Debt Collection Improvement Act of 1996 was enacted in April 1996.

Despite past efforts to improve federal debt collection, problems persist. In the fiscal year 1996 Analytical Perspectives of the budget, OMB reported that in fiscal year 1994, lending agencies wrote off about $2.8 billion of direct loans and terminated for default about $16.4 billion of guaranteed loans. OMB also has reported that outstanding loans in delinquent status grew to an all-time high of almost $40 billion in fiscal year 1994, representing 20 percent of all nontax receivables. Nearly $35 billion of this amount had been delinquent for more than a year and the collectibility is considered doubtful by OMB.

Compounding these problems is the unreliability of agency data on outstanding receivables and guarantees. OMB states that the information being reported on IRS tax receivables does not agree with information on audited financial statements. Further, GAO has been unable to render an opinion on IRS' financial statements because of the unreliability of information. Similar problems with the reliability and completeness of information on credit programs at other agencies also have been reported in the past. Complete and reliable financial information, a primary

objective of the Chief Financial Officers' Act of 1990 and the Government Management Reform Act of 1994, and meaningful program performance measures as called for by the Government Performance and Results Act of 1993, are a prerequisite to effective agency debt collection operations and for the Congress to be able to assess the effectiveness of program implementation.

At the request of House Budget Committee Chairman Kasich, GAO currently is updating its previous work on debt collection. Objectives include (1) developing a current profile of uncollected debt across government, (2) identifying any significant recent trends or changes in those amounts, and (3) identifying opportunities to further strengthen agency debt collection and determining the extent to which credit management reports provide sufficient information to monitor credit quality.

Related GAO Products

Financial Management: Legislation To Improve Governmentwide Debt Collection Practices (GAO/T-AIMD-95-235, September 8, 1995).

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. Last year, 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.[7] 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

	FY97	FY98	FY99	FY00	FY01
Option: Discretionary spending					
Savings from the 1996 funding level					
Budget authority	2,191	2,191	2,191	2,191	2,191
Outlays	597	2,567	3,299	3,598	3,713
Savings from the 1996 funding level adjusted for inflation					
Budget authority	2,255	2,321	2,387	2,453	2,522
Outlays	614	2,663	3,492	3,901	4,128

Source: Congressional Budget Office.

Five-Year Savings

Dollars in millions

	FY97	FY98	FY99	FY00	FY01
Option: Direct spending					
Savings from the 1996 funding level adjusted for inflation					
Budget authority	2,154	2,207	2,263	2,318	2,376
Outlays	423	515	542	556	568

Source: Congressional Budget Office.

Related GAO Products

Highway Funding: Alternatives for Distributing Federal Funds (GAO/RCED-96-6, November 28, 1995).

[7]In the transportation budget function, several very small closed-ended grants could not be easily isolated in the baseline and these are included in the estimate.

Ryan White Care Act of 1990: Opportunities to Enhance Funding Equity (GAO/HEHS-96-26, November 13, 1995).

Department of Labor: Senior Community Service Employment Program Delivery Could Be Improved Through Legislative and Administrative Action (GAO/HEHS-96-4, November 2, 1995).

Rural Development: USDA's Approach to Funding Water and Sewer Projects (GAO/RCED-95-258, September 22, 1995).

Medicaid: Matching Formula's Performance and Potential Modifications (GAO/T-HEHS-95-226, July 27, 1995).

Older Americans Act: Funding Formula Could Better Reflect State Needs (GAO/HEHS-94-41, May 12, 1994).

Medicaid: Alternatives for Improving the Distribution of Funds to States (GAO/HRD-93-112FS, August 20, 1993).

Mental Health Grants: Funding Not Distributed According to State Needs (GAO/T-HRD-91-32, May 16, 1992).

Maternal And Child Health: Block Grants Funds Should Be Distributed More Equitably (GAO/HRD-92-5, April 2, 1992).

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).

Block Grants: Proposed Formulas for Substance Abuse, Mental Health Provide More Equity (GAO/HRD-87-109BR, July 16, 1987).

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 $415 and $200 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, 1996.

Five-Year Revenues

Dollars in billions

	FY97	FY98	FY99	FY00	FY01
Revenue gains	24.1	–5.4	–3.3	–1.1	1.7

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

Source: Joint Committee on Taxation.

Related GAO Product

Tax Policy: Effects of Changing Tax Treatment of Fringe Benefits (GAO/GGD-92-43, April 7, 1992).

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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, 1997.

Five-Year Revenues

Dollars in billions

	FY97	FY98	FY99	FY00	FY01
Revenue gains	[a]	[a]	[a]	[a]	[a]

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

[a]A gain of less than $50 million.

Source: Joint Committee on Taxation.

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, 1997, and for amounts reported on tax bills after December 31, 1998. Together, the proposals would increase federal fiscal year revenues as shown in the table below.

Five-Year Revenues

Dollars in billions

	FY97	FY98	FY99	FY00	FY01
Revenue gain	[a]	[b]	0.1	0.2	0.2

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

[a]Not applicable to that year.

[b]A gain of less than $50 million.

Source: Joint Committee on Taxation.

Related GAO Product

Tax Administration: Overstated Real Estate Tax Deductions Need To Be Reduced (GAO/GGD-93-43, January 19, 1993).

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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 through 1999, IRS' annual costs would be about $70 million and annual increased revenues about $1 billion. This estimate did not factor in compliance costs and changes in taxpayer behavior. Given 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).

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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 forgone revenue. 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, 1996.

Five-Year Revenues

Dollars in billions

	FY97	FY98	FY99	FY00	FY01
Revenue gain	5.1	13.3	16.3	18.4	20.3

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

Source: Joint Committee on Taxation.

Related GAO Product

Tax Policy: Tax Treatment of Life Insurance and Annuity Accrued Interest (GAO/GGD-90-31, January 29, 1990).

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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 extending current information reporting requirements for unincorporated independent contractors to incorporated ones. Thus, independent contractors organized as either sole proprietors or corporations would have been on equal footing, and IRS would have had a less intrusive means of ensuring their tax compliance.

During 1995, various proposals on clarifying the definition of independent contractors and improving related information reporting emerged. Congressional hearings dealt with some of these bills. As of January 1996, the Congress had not acted on any of them.

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, 1998, this option would generate the following revenues.

Five-Year Revenues

Dollars in billions

	FY97	FY98	FY99	FY00	FY01
Revenue gains	1.6	2.2	2.3	2.4	2.6

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

Source: Joint Committee on Taxation.

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).

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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 January 1995, IRS committed about 800 staff years to an early intervention program designed to reduce the number of collection notices sent to delinquent taxpayers and to make telephone contact earlier in the collection process. The additional telephone staff were funded from IRS' fiscal year 1995 Compliance Initiative, which was not extended into fiscal year 1996. According to the IRS Commissioner, although the loss of funding will impact the program, early results from the increased staff reflected additional collections of about $111 million.

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).

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).

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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).

GAO Contact

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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, 1997.

Five-Year Revenues

Dollars in billions

	FY97	FY98	FY99	FY00	FY01
Revenue gains	0.3	0.7	1.0	1.4	1.6

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

Source: Joint Committee on Taxation.

Related GAO Products

Alcohol Excise Taxes: Simplifying Rates Can Enhance Economic and Administrative Efficiency (GAO/GGD-90-123, September 27, 1990).

Tax Policy: Revenue Potential of Restoring Excise Taxes to Past Levels (GAO/GGD-89-52, May 9, 1989).

GAO Contact

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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 (1) job creation attributed to IDB projects would likely have occurred without issuance of the bonds in the three states reviewed, (2) no evidence exists to support the contention that IDBs achieve significant public benefits, such as providing economic growth to depressed areas that would not have otherwise occurred, 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 effective for bonds issued after December 31, 1996. Estimated revenues gained from eliminating QMBs and IDBs are shown in the following table.

Five-Year Revenues

Dollars in billions

	FY97	FY98	FY99	FY00	FY01
Revenue gains	[a]	0.1	0.2	0.3	0.3

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

[a]A gain of less than $50 million.

Source: Joint Committee on Taxation.

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.[8] 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).[9] 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.

[8]The term sole proprietors refers to self-employed individuals other than farmers.

[9]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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Options Not Updated for This Report

The following table provides information on options from last year's report[1] that were not updated because of congressional or agency action that took into consideration GAO's work on the issues.

Option	Comments
Hunter Joint Tactical Unmanned Aerial Vehicle System	DOD has decided not to continue the Hunter program.
Reduce Army Inventories of Spare and Repair Parts at Divisions	Army inventory levels are being reduced based on GAO recommendations.
Alter Readiness Status of Some Ready Reserve Force Ships	GAO's proposal for the Ready Reserve Force suggested that savings could be achieved by decreasing the readiness levels of 20 ships. Requirements for the Ready Reserve Force were modified by the Bottom-Up Review Update published in March 1995, and reductions in both overall force size and readiness levels have been made.
Upgrades to Navy F-14 Fighter Aircraft May Not Be Needed	GAO's budget reduction option questioned the ground attack and structural/survivability upgrades to the F-14, and the Congress acted in fiscal year 1995 to eliminate funding for ground attack upgrades. Regarding the structural/survivability upgrade, it is now less clear that these upgrades are not needed given that F-14 will be called on for longer range interdiction missions since the A-6E strike aircraft are being retired.
Options to Acquire Fewer Attack Submarines	The Congress authorized and appropriated $700 million for fiscal year 1996 to continue the SSN-21 program, including the 3rd Seawolf submarine. The authorization act stipulates that this will be the final vessel of the SSN-21 Seawolf class.
C-17 Aircraft	GAO's budget deficit reduction option suggested that 120 C-17s were not needed based on the strategic delivery requirements of the national security strategy. Moreover, our position is that lift requirements beyond the unique military requirements could be met with B-747s. Since then, the Defense Acquisition Board determined that 120 C-17s were needed to meet unique military requirements and to maintain flexibility. We are now evaluating the analysis that supports that position.
Improve Department of Energy's Property Management Controls	DOE has acted to deal with this problem. For example, specific management performance measures have been included in a new O&M contract at the Rocky Flats facility.
Improve Hanford Site Management	DOE has taken a number of steps to improve the tank farm program and has also cut back funding for well-drilling activities.
Burdensharing in the Republic of Korea	The United States and the Republic of Korea recently concluded an agreement satisfactory to the United States, and no new negotiations can be conducted until December 31, 1998.
Delay Procurement of Nuclear Waste Containers	DOE has decided to terminate this program, effective April 1996.

(continued)

[1]Addressing the Deficit: Budgetary Implications of Selected GAO Work for Fiscal Year 1996 (GAO/OCG-95-2, March 15, 1995).

Option	Comments
Conservation Reserve Program Contracts	The Federal Agriculture Improvement and Reform (FAIR) Act of 1996 contains provisions that limit enrollment to 36.4 acres and allow contracts that were entered into before January 1, l995, and that have been in effect for at least 5 years, to be eligible for early termination. However, this provision does not apply to contracts covering certain environmentally-sensitive lands.
Communications Site Fees	In November 1995, the Bureau of Land Management and the Forest Service established a new fee system for communications rights-of-way that is based on the population a site serves.
Change How Federal Needs for Helium Are Met	Both the Congress and the administration agreed to terminate the Bureau of Mines as well as the federal government's responsibility for the production and sale of refined helium.
U.S. Department of Agriculture Dairy Price Support Program	The FAIR Act of 1996 eliminates the budget assessment on dairy producers immediately and phases down the support price on butter, powdered milk, and cheese over 4 years. At the end of 1999, price support authority is eliminated until 2002 when permanent parity-priced provisions would become effective.
Milk Marketing Orders	The FAIR Act of 1996 instructs the Secretary of Agriculture to consolidate, within 3 years, milk marketing orders from 33 to no more than 14 and no less than 10.
U.S. Department of Agriculture Crop Price Supports	Although the FAIR Act of 1996 does not limit crop price supports in the manner suggested by GAO, it reduces payment limitations for production flexibility contracts to $40,000. More importantly, the act sets up a system to transition producers to a greater market orientation with the ultimate goal of eliminating their dependency on federal price support programs.
Farm Lands Eligible for Deficiency Payments	The FAIR Act of 1996 eliminates traditional production control programs and establishes a production flexibility contract which lets farmers plant as they wish. (Fruits or vegetables may not be planted on contract acres, except under certain circumstances.) A producer may enroll all or part of the farm's contract base acreage in the program and, after sign-up, may request a permanent reduction in the acreage without penalty.
Rice Program	The FAIR Act of 1996 allows farms with a planting history of wheat, corn, grain sorghum, barley, oats, upland cotton or rice in one of the past 5 years to enroll for production flexibility contracts. This program will eliminate the traditional income and price support program for rice.
Peanut Program	The FAIR Act of 1996 reduces the quota support rate through the year 2002, eliminates the price support escalator, eliminates the national poundage quota floor and undermarketing provisions, and allows limited sale, lease, and transfer of quota across county lines.
Centralize Servicing for Rural Housing and Community Development Service's Single-Family Housing Loans	The Department of Agriculture's Rural Housing Service acted over the last year to address this issue. The Service is replacing its decentralized manual system for servicing direct loans with a recently purchased, modern commercial loan origination and servicing system that can operate from a central location.

(continued)

Option	Comments
Eliminate or Transfer Interstate Commerce Commission Functions	This option was adopted by the Congress and action was completed on December 29, 1995, with the passage of The Interstate Commerce Commission Termination Act of 1995.
Reappraise Rural Development Programs	The core of the rural development title of the FAIR Act of 1996 is the establishment of the Rural Community Advancement Program. This changes federal rural development programs by putting in place an approach to rural economic development that will enable state and local officials to identify needs locally and find flexible and innovative ways to meet them. The act also repeals a number of unused rural development authorities and consolidates duplicative existing authorities.
Construction of Veterans' Medical Care Facilities	In its fiscal year 1996 budget submission, VA sought funds to build new hospitals in East Central Florida and northern California as well as funds to renovate several existing hospitals. The Congress, however, provided no funding for new hospital construction in VA's fiscal year 1996 appropriation.
Eliminate Prefinancing Funds for Department of Energy Contractors	DOE has acted to eliminate these funds.

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