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**U.S. GENERAL ACCOUNTING OFFICE**  
*Begin Title* **BACKGROUND PAPER ON**  
**REDUCING THE FEDERAL BUDGET:**  
**STRATEGIES AND EXAMPLES**



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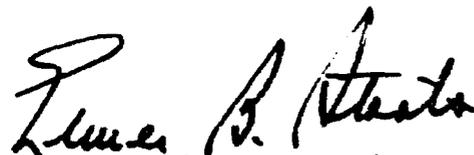
COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

PREFACE

This report is designed to assist the Congress during its consideration of the fiscal year 1982 budget by identifying ways to reduce Federal spending and increase Federal revenues.

The first chapter provides GAO's views on the February 3, 1981, Congressional Budget Office options for reducing the Federal budget, and notes the specific GAO official to contact for more detailed discussions. The second chapter contains other cost-saving proposals developed by GAO. Chapter three contains our views on selected proposals contained in the fiscal year 1982 budget submitted by President Carter. We shall also provide our analysis of the specific budget proposals to be made by President Reagan within several weeks of receiving them.

If you are interested in obtaining additional information on the matters discussed, or copies of the GAO reports cited, the officials identified will be glad to assist you.

  
Comptroller General  
of the United States



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CONTINUED RESTRUCTURING OF MILITARY BASES

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	0	38	135	150	166	489
Outlays	0	32	118	144	161	455

NOTE: Preliminary estimates, subject to change.

The Department of Defense manages over 5,000 installations and properties worldwide. The cost of operating and maintaining these facilities in fiscal year 1981 will be about \$16 billion. Since 1969, the department has taken more than 4,000 realignment and closure actions designed to provide a more efficient defense structure and to reduce base operating costs. Further actions are possible.

Proponents of further base restructuring point to the wide variation in base operating support costs as an indication of the potential savings from such actions. For example, the cost per person assigned to a mission task at the most expensive base often exceeds that at an average base by three to one and sometimes much more--even after adjusting for base size and type of mission. While many factors influence such cost comparisons, the wide variation suggests that further efficiencies are possible. Proponents also contend that changes in the nation's strategic needs, force levels, and weapons technology demand modifications in the existing basing structure. Such realignments need not eliminate places for reserve unit training or reduce mobilization potential, since bases can be put in caretaker status.

CBO has no independent estimate of the total savings possible from further base realignments, because such estimates depend critically on detailed reviews of the situation at each base. One basis for an estimate is the Department of Defense's March 1979 base realignment proposals affecting 157 military installations and activities. If the department pursues and the Congress allows the remaining realignments in this proposal, total savings over

the next five years would amount to \$455 million. These savings would result primarily from a reduction of 2,700 military and 2,800 civilian positions. There would be few if any savings in 1982 because of the added costs of construction, transferring employees, and avoiding economic dislocation.

The major opposition to base realignments stems from the economic dislocation they might produce in communities near the bases—often a cause of intense local concern. Measures can be taken, however, to mitigate this. The Department of Defense states that its Office of Economic Adjustment has been relatively successful in providing planning assistance and ensuring that federal grants and loans are directed to affected communities.

## Continued Restructuring of Military Bases

### GAO Supplementary Discussion

GAO Views. GAO has issued a number of reports since the Department of Defense announced its last major base realignment plan in March 1979. In many cases these reports have concluded that DOD's estimates of savings were overstated and that costs were understated or not recognized at all. In some cases GAO has questioned whether DOD or the military service had a sufficient basis for deciding on the action. As a result, DOD has ordered some of the realignments to be deferred and restudied. And some of the realignments have not begun according to the March 1979 plan. To the extent that the realignments and closures have been delayed or have not begun, DOD's estimate of savings over the 5 year period would be overstated.

Another factor bears on the reliability of DOD's savings estimate. Generally DOD computes costs and savings on the premise that the computation should only include costs and savings to DOD activities. Thus, any costs or savings directly resulting from these realignments, borne by a government agency other than DOD would be excluded. Generally, the additional expenditures resulting from the actions of the Office of Economic Adjustment would not be included and therefore offset against any net savings resulting from the realignments and closures.

Relevant GAO Reports. LCD-81-22, LCD-81-21, LCD-81-11, LCD-80-104, LCD-80-80, LCD-80-54, LCD-80-50, LCD-80-46, LCD-80-24, LCD-79-333, LCD-79-332, LCD-79-331, LCD-79-329, LCD-79-328, LCD-79-326, LCD-79-325, LCD-79-324, LCD-79-322, LCD-79-318

Contact. James G. Mitchell, 275-3591.

INCREASE IN JOINT-SERVICE ADVERTISING

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	18	21	24	26	29	118
Outlays	15	20	23	26	29	113

NOTE: Preliminary estimates, subject to change.

Since the transition to an all-volunteer force began in 1973, advertising budgets for military recruiting have grown from almost nothing to over \$140 million for fiscal year 1981. Less than 10 percent of these funds have been dedicated to joint advertising in which two or more services appear in the same advertisement. Yet the Department of Defense has found that, for certain purposes, joint-service advertising would be more cost-effective. Tests show, for example, that joint-service magazine advertising yields, per dollar spent, 1.5 times the number of applicant leads for recruiting as does single-service magazine advertising. Joint-service advertising may also help to avoid undesirable interservice competition for recruits.

If these findings hold for all advertising media, the services could cut advertising costs substantially and still obtain the same number of qualified leads. For example, if Congressional appropriations actions mandated conversion of one-half the single-service media budgets into joint advertising, savings could amount to \$15 million in fiscal year 1982 and \$113 million over the next five years.

The principal argument against joint-service advertising is that it provides a popular service, such as the Air Force, with more leads than others like the Army, even though the Army's manpower requirement is far greater. Also, single-service advertising is useful in publicizing occupations such as armor crewman or nuclear propulsion specialist that are unique to a specific service. Under the option described above, however, the services could use the half of their advertising funds not devoted to joint advertising to meet these specialized objectives.

## Increase in Joint-Service Advertising

### GAO Supplementary Discussion

GAO Views. Advertising expenditures for military recruiting have increased from \$6.7 million in fiscal year 1979 to an estimated \$140 million for fiscal year 1981. Only a small percentage of these expenditures are for joint-service advertising. When the services conduct large advertising programs, they may be only competing with each other for the same potential recruit. We found considerable evidence of uncontrolled, duplicative, or inconsistent practices that offer potential for reducing cost and increasing advertising program effectiveness.

Each service has been pretty much on its own as to how its advertising money would be spent. The rationale for this is that the unique nature of each service requires it to tailor all programs that give their special message. Research has shown, however, that the things that attract youth are common to all services, i.e., pay, educational and training opportunities, travel, etc.

In order to improve the effectiveness and reduce the cost of the services' advertising program, we made several recommendations related to the need for additional research, including the need for research on various approaches to joint-service advertising.

Relevant GAO Reports. FPCD-76-168; March 29, 1976.

GAO Contact. Kenneth Coffey, 275-5140

STREAMLINING OF MILITARY RECRUITING SUPPORT OPERATIONS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	66	73	80	88	96	403
Outlays	59	71	79	87	95	391

NOTE: Preliminary estimates, subject to change.

The transition to an all-volunteer force during the 1970s spawned a dramatic growth in military recruitment costs, which rose from about \$125 million in fiscal year 1970 to nearly \$1 billion in 1981. These expenditures pay for recruiting, examining, advertising, cash enlistment bonuses, and education incentives for active and reserve recruits. About two-thirds of the total is for the pay and support of some 18,000 production recruiters working in 7,000 recruiting offices nationwide.

A decade of experience suggests possible ways of reducing these costs without reducing productivity. For example, the Department of Defense could consolidate a number of logistical and administrative support functions common among the services, including the training of recruiters, the development and operation of computerized recruit information systems, the leasing of vehicles and recruiting offices, and specialized functions such as education and occupational guidance counseling. The services, and particularly the Army, could also streamline their recruiting management structures and search for other opportunities to consolidate and standardize operations in this field.

If Congressional appropriations action mandated these changes, CBO estimates savings of \$391 million would be possible over the next five years, primarily from personnel reductions. The Congress might well require a detailed plan from the services for minimizing transition difficulties and the risk of recruiting shortfalls before mandating the changes described here.

Streamlining of Military  
Recruiting Support Operations

GAO Supplementary Discussion

GAO Views. GAO has studied various aspects of the military services' recruiting management, including the need for more flexible management. GAO found that that perhaps the greatest stumbling block to achieving recruiting goals is the inflexibility inherent in the management of service recruiting programs. This inflexibility is particularly evident in (1) the absence of readily available nonmonetary policy change alternatives, which can be used as management tools within existing funding levels and (2) the insistence that recruiting objectives be fixed well in advance, although properly matching recruiting resources and nonmonetary policies to these goals is generally not possible because of the uncertainties of congressional action and the recruiting marketplace.

While we have not examined which specific recruiting support functions could or should be consolidated, our studies generally support the need for consolidation of logistical and administrative support functions common among the services. We have not estimated the potential savings available through better management practices, but we believe it would be substantial.

Relevant GAO Reports. FPCD-80-64, September 18, 1980; FPCD-75-169, March 5, 1976; FPCD-80-78, August 15, 1980.

GAO Contact. Kenneth Coffey, 275-5140

ENDING OF CERTAIN SOCIAL SECURITY CREDITS FOR MILITARY PERSONNEL

Savings from	Annual Savings (millions of dollars)					Annual Long- Run Savings (1982 dollars)
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	0	0	0	0	0	30
Outlays	0	0	0	0	0	30

NOTE: Preliminary estimates, subject to change.

Since 1957, military personnel have contributed to the Social Security System and received benefits in proportion to their basic military pay. But some military personnel receive additional Social Security benefits based on credits of as much as \$1,200 a year for which they do not contribute. The noncontributory credits are given to personnel whose basic pay is less than the maximum earnings subject to Social Security taxes—in 1980, over 95 percent of those in uniform.

According to a 1980 General Accounting Office (GAO) study, the Congress intended the noncontributory credits to provide added disability and survivor benefits for those who spend only a few years in the military. GAO concluded, however, that today's noncareer personnel generally receive disability and survivor benefits from several sources and in adequate amounts. Moreover, the Congress apparently did not anticipate that career military personnel would benefit from the noncontributory credits, although recent increases in the maximum earnings subject to Social Security taxes ensure that most will.

If the Congress eliminated noncontributory credits for future service, the Social Security System would begin to experience savings in about 15 years. These savings would eventually grow to about \$30 million a year (in 1982 dollars). Elimination of the noncontributory credits would, of course, slightly reduce military compensation. Any adverse effect on retention should be small, however, since the benefits based on the noncontributory credits are small and are received many years after military reenlistment decisions are made.



CONTINUED RESTRUCTURING OF ACTIVE-DUTY MILITARY RETIREMENT

Savings from	Annual Savings (millions of dollars)					Annual Long- Run Savings (1982 dollars)
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	0	0	0	0	0	900
Outlays	0	0	0	0	0	900
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

The active-duty military retirement system provides benefits for about 1.2 million retirees at a cost of about \$13 billion in fiscal year 1981. Under this system, nondisability retirees earn benefits after 20 or more years of service irrespective of their age or whether they subsequently find employment in the private sector. Those serving for fewer than 20 years earn no benefits. Five major studies, plus a legislative proposal from the Carter Administration, have recommended providing more of the total military compensation package "up front" rather than in retirement years. This would provide mid-career personnel with increased incentives to remain in the service, while reducing the incentive to leave the military immediately after completion of 20 years' service. In 1980, the Congress moved in this direction by requiring that retirement pay for new recruits be based on the three years when their pay was highest, rather than their pay on the day of retirement.

The Congress could continue to change the military retirement laws along lines recommended in various studies. It could implement a Social Security "offset" for nondisability retirees in order to integrate military retirement benefits with Social Security. The offset would equal the portion of the Social Security pension attributable to military service, but not more than 40 percent of military benefits. This formula was enacted last year for the military survivor benefits program. In order to move some of the savings from this offset up front, the Congress could also provide a deferred benefit, beginning at age 60, for those leaving the military with between 10 and 19 years of service. This deferred benefit would be based on the same formula as the annuities provided those serving longer careers.

The deferred benefit for those serving 10 to 19 years would increase the rate of reenlistments by first-term personnel. This would offset the decline in retention resulting from the Social Security offset. This package would thus increase the numbers of career personnel with five to 12 years of service, a shift most of the services think desirable. The changes would also save money. Savings would eventually reach \$0.9 billion a year, or about 7 percent of long-run nondisability retirement costs. Although the savings would probably not begin for at least 20 years, the liability that the government is accruing for future retirement costs would be adjusted immediately.

The Social Security offset might be opposed by the services as an erosion of benefits, especially if it was applied to personnel currently on active duty. There is also some uncertainty with respect to CBO's estimates and there could be a net decline in retention.

President Carter's fiscal year budget recommendations include proposals similar to the foregoing. Therefore, this option would not produce substantial savings relative to the Carter budget.

Continued Restructuring of Active  
Duty Military Retirement

GAO Supplementary Discussion

GAO Views. GAO has recommended that the 20-year military retirement system be restructured. Despite the justification that retirement after 20 years in the Armed Forces is needed to maintain a youthful and vigorous force, most military careerists spend the greater part of their time in jobs which have no exceptionally vigorous duties. Yet they are eligible to retire under the same circumstances as those who serve in more demanding combat-type positions.

Twenty-year retirement is neither equitable nor does it promote efficient and effective use of manpower. The system needs to be redesigned so that there are varying career lengths based on the type of duties performed and the needs of the services. This would provide incentive to those who have demanding or hazardous duties and a means for retaining personnel in the many technical and professional jobs where maturity, experience, and judgment are more valuable than stamina and agility.

The thrust of our recommendations was to make the system more flexible to meet the services' needs. We did not estimate whether a budgetary savings would accrue. We concluded that a more flexible system would allow the Department of Defense to more effectively retain the mix of manpower it needs--first and second termers versus career members and by type of military occupation. We recommended that the arbitrary 20-year career length be done away with and replaced by a system that would tend to retain a youthful and vigorous force as well as those skills and occupations are in short supply. We also recommended some form of vesting for those who do not complete full careers.

Aside from the military's 20-year retirement policy, there are other military retirement problems and issues that parallel those affecting Federal civilian retirement programs. Two of its most important are full, twice-a-year cost-of-living adjustments and inadequate funding practices.

To be more equitable and consistent with non-Federal practices, cost-of-living adjustments for retirees should be only once-a-year and limited to something less than the full percentage rise in the Consumer Price Index. While the established policy of full, automatic indexation is a laudable objective, it is a benefit not normally

available in the private sector and is simply a question of affordability.

Like other Federal retirement programs, the military retirement system should adopt actuarial methods and funding provisions that reflect the full cost of accruing retirement benefits. The military on contributory, pay-as-you-go system now has an unfunded liability of \$445 billion. This cost needs to be routinely recognized to evaluate the cost of agency operations and the effect of any benefit changes.

Relevant GAO Reports. FPCD-77-81, March 13, 1978;  
B-130150, July 1, 1980; FPCD-78-49, December 29, 1978.

GAO Contact. Kenneth Coffey, 275-5140

RESTRUCTURING OF RESERVE RETIREMENT PAY

Savings from	Annual Savings (millions of dollars)					Annual Long- Run Savings (1982 dollars)
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	0	0	0	0	0	300
Outlays	0	0	0	0	0	300

NOTE: Preliminary estimates, subject to change.

Under current law, military reservists with 20 or more years of satisfactory service are eligible for a retirement annuity beginning at age 60. About 113,000 former reservists are drawing retirement pay, at a cost to the federal government of \$687 million in fiscal year 1980.

Numerous studies have criticized the military compensation system for providing too great a proportion of benefits upon retirement, and not enough compensation in earlier years. This may tend to produce a shortage of junior personnel and an excess of senior careerists. An informal 1978 study by the Department of Defense of the reserve compensation system contained data showing the fraction of reservists with 20 or more years of service to be more than 50 percent above the level desired.

The Congress could take account of these criticisms and reduce reserve retirement benefits for senior careerists by integrating them with Social Security. The reserve retiree's annuity might be reduced by the portion of his Social Security pension attributable to his military earnings, but by not more than 40 percent of military benefits. This formula was enacted in 1980 for the military survivor benefits program. In addition, the Congress could provide an annuity at age 60 for enlisted reservists separating with between 10 and 19 years of service, using the same formula applied to those with longer careers. Currently, those who leave with fewer than 20 years of service receive nothing.

Net savings from these changes would eventually reach about \$300 million a year (in 1982 dollars), or about 20 percent of

reserve retirement costs. Significant outlay savings under this option would not begin for 10 to 40 years, depending upon the treatment of those now in the reserves, but the liability that the government is accruing for future reserve retirement costs would be adjusted immediately.

The incentives provided by these changes could improve the composition of the reserve forces, as well as overall reserve manning. On the other hand, such major changes in the long-established reserve compensation system might have a detrimental impact on manning in some reserve components.

## Restructuring of Reserve Retirement Pay

### GAO Supplementary Discussion

GAO Views. While GAO has not specifically studied the reserve retirement component of the military retirement system, our concerns with respect to the overall military retirement system apply equally to this component. The twice-a-year full consumer price index cost-of-living adjustment is far more generous than those of non-Federal pension plans and more generous than increases granted to active employees. We have recommended to the Congress that it enact legislation necessary to provide retirement cost-of-living adjustments only once-a-year to make the adjustment process more consistent with prevailing non-Federal practice, and we have suggested that full indexing of the cost-of-living adjustment for retirees is inequitable to active Federal employees and may no longer be affordable.

Relevant GAO Reports. FPCD-78-49, December 29, 1978; FPCD-77-81, March 13, 1978; B-130150, July 1, 1980.

GAO Contact. Kenneth Coffey, 275-5140

INCREASE IN THE STATES' SHARE OF ARMY NATIONAL GUARD COSTS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	210	230	250	270	300	1,260
Outlays	210	230	250	270	300	1,260

NOTE: Preliminary estimates, subject to change.

The 344,000 members of the Army National Guard serve two functions. They are part of the nation's reserve military forces, and they are used by the states to keep order when other police and security forces are inadequate, for assistance after natural disasters, for holiday traffic patrols, and for other state purposes. The states pay salary costs only when the Guard is actively performing a state mission; they pay nothing else toward the cost of the insurance role the Guard fulfills. This option would require the states to pay 10 percent of the operating cost of the Army Guard.

The argument in favor of the change, aside from the federal savings that would occur, is that it is reasonable to ask state governments to bear at least a part of the ongoing costs of military units that are primarily used for state purposes; and that, if the states had to pay some part of the costs, they would examine more carefully the desired size and capability of their Guard units. Opponents might well argue that the Guard's size is determined by federal mobilization requirements and that the Guard's state functions are simply auxiliary duties.

Increase in the States' Share of  
Army National Guard Costs

GAO Supplementary Discussion

GAO Views. GAO has not specifically studied the question of whether the States should increase their contribution to the support of the Army National Guard. We have, however, made numerous studies concerning the use and recruitment of the Selected Reserves, including the Army National Guard.

The question of whether the Federal Government should pay the full operation cost of the Army Guard or whether the States should share in this cost would seem to center on a determination of the primary mission of the Guard. Since 1973, when the draft ended and the United States began relying exclusively on an All-Volunteer Force, the Department of Defense has moved to a "Total Force" policy. This policy places a much heavier reliance on the National Guard and Reserve Forces to perform missions at, or just following, mobilization. Selected Reserves--individuals and units who participate in training--are a prime source of trained and ready units to augment the Active Forces in the very early days of a war or a national emergency.

We believe that before any move is made to require States to share in the operating cost of the Army National Guard, a thorough study should be made to determine what impact such a requirement would have on the "Total Force" policy and on national security.

Relevant GAO Reports. FPCD-79-3, June 28, 1979; FPCD-77-68, August 12, 1977; FPCD-79-71, June 20, 1979; FPCD-79-58, July 11, 1979; FPCD-80-78, August 15, 1980; FPCD-78-82, January 26, 1979; FPCD-80-6, December 11, 1979; LCD-79-404, April 25, 1979; FPCD-79-59, July 30, 1979.

GAO Contact. Kenneth Coffey, 275-5140

SUBSTITUTION OF KC-10 PROCUREMENT FOR KC-135 RE-ENGINEING

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	-353	507	701	764	1,715	3,334
Outlays	-36	-105	169	536	813	1,377
Carter Budget						
BA	0	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	0	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

For several years, the Air Force has sought to expand its aerial refueling capacity through two programs: first, procurement of the new KC-10 advanced tanker, already begun; and second, development of a program to replace the old, noisy, and less efficient engines of the existing KC-135A tanker with modern engines. The CBO baseline includes funds to re-engine 288 KC-135A tankers during the next five years, which would increase aerial refueling capacity by the equivalent of 144 KC-135A aircraft. This is because the new engines would permit the KC-135A to carry more fuel while consuming less for its own flight.

On the other hand, it would be less expensive to purchase more KC-10 tankers. On missions for which either tanker is suitable, the KC-10 is estimated to be roughly equivalent to three KC-135As. Consequently, 48 additional KC-10 aircraft would equal the capabilities offered by re-engineing 288 KC-135As. Buying these extra KC-10 aircraft, and not re-engineing any KC-135A aircraft or developing the program, would save a total of \$1,377 million over the next five years. These savings assume that the 48 KC-10 aircraft would be purchased at a rate of one per month under terms comparable to those of the current contract, which offers substantial discounts for purchases of this size and rate.

In addition to providing roughly equal capability for many missions for which either tanker is suitable, this option would also increase the number of large KC-10 tankers, which are particularly efficient refuelers on long, nonstop transits like those

to the Persian Gulf. The option would, however, mean keeping in operation noisy and less efficient KC-135A aircraft. Their noise causes problems for the Air National Guard, which sometimes operates them near heavily populated areas. Moreover, operating expenses under this option could be expected to increase--mostly in years beyond 1986--because of the manpower needed to support the extra KC-10 aircraft, though the life-cycle increases in operating costs would be substantially less than the procurement savings over the next five years.

President Carter's fiscal year 1982 budget recommendations contain no KC-10 procurements and no substantial funds for KC-135 re-engining. Consequently, there is no opportunity for the trade-off proposed in this option.

## Substitution of KC-10 Procurement for KC-135 Re-engining

### GAO Supplementary Discussion

GAO Views. The Air Force has implemented programs to modernize its tanker force and increase its capabilities by installing larger and more efficient engines on the KC-135s and buying new and larger tankers, the KC-10. Our review of the Air Force's KC-135 tanker aircraft re-engining modification program showed that there are major issues regarding the program's pace, cost effectiveness, need, and affordability that should be resolved by the Department of Defense before significant funding is committed.

There may be a need, however, for operational flexibility attainable by re-engining the smaller but more numerous KC-135s. Tanker aircraft requirements have a tendency to be "boom intensive," that is, the requirement may be to refuel a large number of aircraft simultaneously in scattered locations. While 48 KC-10s would have the fuel capacity of 288 re-engined KC-135s, the number of booms available for simultaneous refueling would be much less. For example, a single KC-10 can carry enough fuel to ferry an entire fighter squadron from the United States to Europe. But because of the number of aircraft that would have to be refueled simultaneously, 3 KC-10s would be required. Thus buying all KC-10s and not re-engining any KC-135s might result in fewer booms than required.

There would be operational problems with KC-135s that aren't re-engined. Because of their dirty, noisy engines, KC-135s, are not allowed to operate in Japan and are restricted in several European countries. Because of relatively low engine power, KC-135s are currently restricted to operating from locations with runways in excess of 12,000 feet long. Re-engining would greatly increase the number of locations from which KC-135s could operate.

The KC-135 engine is no longer produced, and repair parts have to be cannibalized or manufactured on order. Replacement with modern engines in 288 aircraft would solve most of the KC-135 engine logistics problems by:

- using modern engines for which parts are readily available, and which are more reliable to begin with, and
- releasing 1,152 engines (4 each on 288 airplanes) and attendant pipeline spares for use as spares to keep the remaining 327 KC-135s with old engines in flying condition. This would increase the readiness of the whole fleet.

The Air Force Logistics Command has established a program called Pacer Grade which would rehabilitate existing KC-135 engines. While the Pacer Grade program will not increase tanker off-load capability, it

will increase the service life of the existing engines and increase their reliability, durability, and, to a very limited extent, fuel efficiency.

Relevant GAO Reports. LCD-79-408, PSAD-80-80

Contact. Paul Math, 275-3697

TERMINATION OF E-4B AIRCRAFT PROCUREMENT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	0	0	388	320	0	708
Outlays	0	0	39	204	281	524
<b>Carter Budget</b>						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

The E-4B is a 747 aircraft modified to function as an airborne military command post during a nuclear war. The planes are intended to serve both as a National Emergency Airborne Command Post (NEACP) for the President and his advisors and as support for the Strategic Air Command's "Looking Glass" mission, which provides a command post on continuous airborne alert over the central United States.

The Department of Defense has four E-4 aircraft that are sufficient to support the NEACP role; all have been or will be upgraded to the E-4B configuration. The department plans to buy two more E-4B aircraft for the Looking Glass mission. If the Congress did not buy these two aircraft, savings over the next five years would total \$524 million.

If no further E-4B aircraft were purchased, Looking Glass missions would continue to be flown by the EC-135 aircraft (707-type) that have been used over the past 20 years and are now being modernized. The savings figure cited above includes the added costs needed to enhance this modernization. Many of the advantages of the E-4B have been incorporated into the modernization program. The E-4B and EC-135 will have comparable computer capabilities. Very low frequency (VLF) communications, a key type of communications, will be improved on the EC-135 and will substantially match VLF coverage on the E-4B. Satellite terminals for EC-135 aircraft are currently under development and could be fielded quickly.

The E-4B does have several advantages over the modernized EC-135. The E-4B could carry a larger battle staff (41 versus 17), have greater endurance in an emergency, and be hardened against certain nuclear effects. Even if Looking Glass was not routinely flown by the larger E-4B aircraft, however, some of the four existing E-4Bs could be used to complement current operations if there was sufficient warning of an emergency.

President Carter's fiscal year 1982 budget recommendations do not contain sufficient detail to permit calculating the effect of the proposal relative to his budget.

Termination of E-4B Aircraft Procurement

GAO Supplementary Discussion

GAO Views: GAO has not reviewed this acquisition program since 1974, however, some observations on the proposal to terminate aircraft procurement are possible.

This proposal's suggestion to cancel procurement does not indicate consideration of (1) whether the "Looking Glass" mission is needed and (2) its priority relative to other missions of the Department of Defense and their need for funding. GAO recommends that the need and priority be given consideration before any decision to terminate is made.

The proposal's suggestion that the existing E-4B aircraft could complement the "Looking Glass" operation should show some evidence that sufficient aircraft will be available for such use.

Relevant GAO Report: Advanced Airborne Command Post staff study  
March 1975.

Contact: Richard Gorman, 275-3501

ACCELERATED BUYOUT OF AIRCRAFT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	-790	502	540	0	0	252
Outlays	-126	-374	-7	408	264	165
<b>Carter Budget</b>						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

The Department of Defense is planning to phase out the production of the F-14, F-15, and A-10 aircraft over the next three years. By ending the production of each aircraft one year earlier, but buying more aircraft in the remaining years, so as to buy the same total number of aircraft, savings of approximately \$165 million could be achieved. These savings result from economies of scale in production and the elimination of one year of factory overhead costs for each aircraft program.

Under this modified program, each of the production lines would close one year earlier, thereby reducing the fighter aircraft production base, with a loss of tooling and skilled factory labor. Thus, in case of an unexpected war, it would take a considerable period of time to restart production of these aircraft, as compared with the expansion of an ongoing production line. However, ongoing production lines for other similar combat aircraft exist in both the Air Force and the Navy.

President Carter's fiscal year 1982 budget deletes further procurement of A-10 aircraft beginning in 1982. Additional information about outyear programs is not available at this time. Consequently, there is no present basis for estimating savings relative to the Carter Budget from an accelerated buyout.

## Accelerated Buyout of Aircraft

### GAO Supplementary Discussion

GAO Views. In a report on impediments to reducing costs of weapons, GAO expressed concern about limited rates of production for military weapons. In the commercial sector production volume is set at optimum rates by company management based on production efficiency market analyses. However, the production rates of many military weapons are dictated, though indirectly, by constraints set by the Congress, OMB, or the Office of the Secretary of Defense. As CBO indicates, GAO has found that low production rates may result from a deliberate program stretchout to assure a warm industrial base. Just as important GAO's report points out that production of new DOD hardware may also be established at uneconomical rates for various reasons including funds not being available. Whatever the reason for limiting production to less than the optimum rate, the effect is a loss of productivity and an increase in the cost of major weapons

GAO has noted inefficient production rates in numerous new programs including Army and Navy helicopters and other Army weapon systems.

Relevant GAO Reports. PSAD-80-6, C-MASAD-81-1

Contact: Joseph C. Bohan, 275-3469

INCREASED EFFICIENCY IN DEFENSE PROCUREMENT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

In fiscal year 1982, the Department of Defense will buy over \$100 billion in goods and services from the private sector. This cost could possibly be reduced, without eliminating any purchases, by more efficient procurement procedures.

The department could, for example, use more than one company to manufacture a weapon. Particularly for weapons like missiles that are bought in large quantities, such "second sourcing" maintains competition and may cut long-term costs substantially. Also, the department could buy weapons at more economic rates, which may often be higher than today's procurement rates. If these buy rates are consistent with defense needs, they would minimize overhead costs that must be paid to producers. Many questions must, of course, be considered in deciding on second sourcing and the buy size for weapons. The Congress could focus attention on these questions by requiring that the department submit a statement with each proposed buy of weapons. The statement would assess the desirability of second sourcing or changing the buy size, and estimate the costs and savings associated with such actions.

The Congress might also want to grant the department more authority to enter into multiyear contracts for selected weapons systems. Such multiyear contracts reduce the uncertainty about future buys. This may cut costs by prompting producers to stockpile needed raw materials that are likely to increase in price, encouraging investments in tooling that cut long-run costs, and facilitating efficient scheduling by prime contractors and their subcontractors. The Congress could increase the opportunities for multiyear contracting, while also retaining leeway to terminate a program, by increasing the payments that can be made to a company if its multiyear contract is terminated early.

Finally, the Department of Defense might be able to cut down on procurement red tape. The Defense Acquisition Regulations encompass 3,000 pages and are supplemented by over 27,000 pages of additional procurement regulations issued by major Defense Department commands. The regulations mandate highly specific and exacting material standards, manufacturing processes, quality assurance, contract supervision procedures, and documentation. Studies of the costs of applying these regulations to major defense systems suggest that they add between 20 percent and 100 percent to the costs of goods, for little or no gain in effectiveness. Contracting could be simplified by more use of commercial products as well as more use of performance standards instead of detailed process and material standards, as recently directed in the Office of Management and Budget's Circular A-109. These changes could be mandated by the Congress in a revision of the federal procurement codes.

Specific savings are not shown above because there is no way to estimate them accurately. Nonetheless, if such efficiencies resulted in a reduction of 5 percent in the cost of purchases for procurement and research and development—and case studies suggest that, at least in certain instances, such savings could be achieved—then savings over the next five years would total over \$22 billion in budget authority and \$16 billion in outlays.

These efficiencies might, however, create problems. Reductions in red tape assume less direct federal supervision of contract operations. Unless this shift is accomplished carefully, both quality and accountability could be degraded. Multiyear contracting requires the Congress to surrender some control over programs once they are initially approved. Second sourcing, while promising for certain types of weapons, may involve increases in initial costs as the government pays new contractors to become qualified to produce complex weapons.

## Increased Efficiency in Defense Procurement

### GAO Supplementary Discussion

GAO Views. GAO believes that multiyear contracting could reduce procurement costs. In a report, GAO stated that multiyear contracting is a means of increasing competition and reducing contract prices by enabling a contractor to spread its planning, startup and other preproduction costs over a longer period. The contractor benefits are expected to result in decreased unit prices to the Government. In addition, there is an expected savings in administrative costs by eliminating repetitive solicitations, proposal evaluations and contract awards. In 1977, GAO conducted a study that included an evaluation of instances where multiyear contracting was introduced into certain Defense Logistics Agency and Air Force procurements. The resulting report identified annual savings of \$3 million, or about 21 percent of 26 multiyear contracts valued at \$14 million, exclusive of any administrative cost savings.

The GAO position still remains that multiyear contracting is a viable acquisition method that should be pursued and used when and where feasible and applicable. On November 17, 1980, the GAO's Acting Director, Procurement and Systems Acquisition Division supported this position in testimony before the Subcommittee on Research and Development, Defense Industrial Base Panel, House Committee on Armed Services.

GAO believes in principle that there might be areas where procurement red tape could be reduced with savings in the procurement process. Over the years, GAO has identified such areas and has been successful in obtaining some needed improvements. However, it should be pointed out that much of the paperwork or documentation generated as a consequence of procurement regulations is the result of requirements imposed upon the procurement process such as those related to socioeconomic programs. Therefore, to significantly reduce paperwork or red tape associated with procurement, emphasis should be placed on evaluating the need for the requirement which "drives" the documentation.

The increased use of commercial products as well as more use of performance standards instead of detailed process and material standards similarly could reduce procurement costs. GAO reviewed the implementation of Federal policy which requires agencies to rely on commercial products and distribution channels to meet their needs for products and services, and found that little meaningful progress had been made. GAO recommended that the Congress should consider placing executive branch agencies' under a mandatory timeframe for accomplishing implementation of the commercial products policy. Similarly, GAO reviewed the purchase of certain individual products and demonstrated that for these individual products, savings could be effected through increased use of commercial specifications.

Relevant GAO Reports. PSAD-78-54, PSAD-80-13, PSAD-81-14, PSAD-80-9,  
PSAD-79-55, PSAD-77-171.

Contact: Sidney Wolin, 275-3176 (multiyear contracting)  
Carl Bogar, 275-3161 (red tape and commercial products)

REFORM OF FEDERAL WAGE-SETTING PROVISIONS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	370	890	1,090	1,200	1,310	4,860
Outlays	370	890	1,090	1,200	1,310	4,860
<b>Carter Budget</b>						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

The hourly pay rates of blue-collar workers under the Federal Wage System (FWS) are adjusted annually in an attempt to maintain comparability with wage rates paid by the private sector in the same locality. Under certain provisions of current laws and regulations, however, the 400,000 FWS employees may receive about 10 percent more than their nonfederal counterparts in similar jobs, with a few receiving as much as 20 percent more. Recent limits on federal pay raises have reduced these differentials, but the laws and regulations remain.

The Carter Administration and previous Administrations have repeatedly recommended changes in the law governing FWS paysetting provisions in order to eliminate the differentials. The changes have also been recommended by a presidential commission and the General Accounting Office. If the changes were enacted, the five-year savings through 1986 could exceed \$4.8 billion. This estimate of savings assumes, however, that FWS workers would be granted a catch-up raise in fiscal year 1982 to make up for past limits on federal pay raises, and that no further limits would be imposed over the next five years. About 80 percent of the savings would accrue to the Department of Defense.

Proponents of the proposed changes argue that the present system is overgenerous to FWS workers and unfair to federal taxpayers. Labor unions and others opposing the changes assert that private-sector practices vary greatly, and that some are similar to the federal system. They also contend that the reforms

would be selective, dealing only with those aspects of the wage-setting mechanism favorable to employees, while continuing those aspects of the system tending to depress federal wage rates.

President Carter's budget recommendations for fiscal year 1982 include proposals similar to the foregoing. Thus, there are no savings relative to the Carter budget.

## Reform of Federal Wage-Setting Provisions

### GAO Supplementary Discussion

GAO Views. GAO has recommended changes to eliminate or change features in the pay system that cause Federal wages to depart from prevailing private-sector rates. The features that should be modified are

- a Federal five-step grade system with the average private-sector equated to the Federal step 2 even though 80 percent of the employees are above step 2;
- Federal rates which are sometimes set on rates paid in other than the local wage area;
- night-shift differentials that are not set according to local prevailing practice; and
- exclusion of State and local government jobs from the pay surveys.

By causing Federal pay to exceed private-sector pay, these features reduce confidence in the Government's pay-setting policies, and increase outlays for pay and benefits. To the detriment of Federal blue-collar employees, these features also increase the likelihood of contracting out inasmuch as private-sector employees will tend to be less costly.

Relevant GAO Reports. FPCD-75-122, June 3, 1975; FPCD-78-60, July 21, 1978; FPCD-80-12, October 29, 1979; FPCD-80-82, September 3, 1980; FPCD-81-12, December 5, 1980.

GAO Contact. Robert Shelton, 275-5743

ELIMINATION OF DUAL PAY FOR RESERVISTS WHO ARE FEDERAL EMPLOYEES

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	53	58	63	69	75	318
Outlays	52	58	63	69	76	318
<b>Carter Budget</b>						
BA	23	28	33	39	45	168
Outlays	22	28	33	39	46	268

NOTE: Preliminary estimates, subject to change.

Federal civilian employees who are reservists in the armed forces receive both civilian and military pay during their two-week annual period of active duty for training. They also receive their regular vacation entitlement. The Carter Administration and earlier Administrations have recommended paying such employees the greater of their civilian or reserve salaries, rather than both. This initiative was included in the House version of the Omnibus Reconciliation Bill for 1980, but was taken out in conference. Adopting it would save more than \$300 million over the next five years. Savings could all be in defense if the change were implemented by reducing reserve pay, or they could be spread throughout the federal budget under other schemes.

Those who favor such a change point out that the dual pay practice is generally not followed by private employers, nor by the federal government itself when a reservist is called up for state duty. Under those circumstances, the employee receives only the higher salary. Moreover, the practice may attract disproportionately large numbers of federal employees to the reserves, despite the greater likelihood that their civilian jobs would excuse them from a military mobilization. The counter-argument is that the change could have an adverse effect on recruiting and retention of reserves--in a force already falling short of its enlisted manning goals. (If the Congress limited the change to officer reservists--who are not in short supply--the earnings over the next five years would still exceed \$100 million relative to the CBO baseline.)

President Carter's budget recommendations for fiscal year 1982 assume enactment of this proposal. The Carter budget, however, apparently does not include savings for reservists employed outside the Department of Defense.

Elimination of Dual Pay for Reservists  
Who Are Federal Employees

GAO Supplementary Discussion

GAO Views. GAO has generally been in favor of eliminating or amending laws that provide for dual compensation to Federal employees. Unless there is some evidence which would show that elimination of this dual compensation provision will severely affect the recruitment and maintenance of an adequate reserve force, we would favor its discontinuance.

We have not independently estimated the savings that would result from eliminating this dual compensation, but CBO's estimate is in line with other savings estimates that have been made.

Relevant GAO Reports. FPCD-77-73, October 14, 1977;  
FPCD-77-48; August 2, 1977.

GAO Contact. Kenneth Coffey, 275-5140

SALE OF SURPLUS SILVER

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<hr/>						
CBO Baseline						
BA	229	229	229	229	229	1,145
Outlays	229	229	229	229	229	1,145
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

The federal government currently holds 139.5 million troy ounces of surplus silver, valued at approximately \$2.1 billion in January 1981 prices. Silver has not been required for the national strategic stockpile since 1976, because supplies in the United States, Mexico, and Canada are considered adequate for defense needs. But the silver inventory, stored in the form of ingots, cannot be disposed of without authorizing legislation. If the Congress were to approve the disposal of 15 million troy ounces of silver a year, receipts to the government—assuming the average January 1-15, 1981 price of \$15.24 per troy ounce—would accumulate to about \$1.1 billion through fiscal year 1986.

To the extent that disposal might lower silver prices, the legislation would be opposed by domestic mining and metal processing industries, and by foreign countries relying heavily on silver exports. Other opponents fear that U.S. defense preparedness might be weakened. The disposal of surplus silver could also be viewed as an artificial budget reduction measure in that the sale of assets does not reduce federal purchases of goods and services. Proponents argue, however, that the silver inventory is unnecessary and could best be used as a source of federal revenue.

President Carter's fiscal year 1982 budget recommendations assume the sales described above, beginning in fiscal year 1981. Consequently, enactment of this item will result in no savings relative to the Carter budget.

## SALE OF SURPLUS SILVER

### GAO SUPPLEMENTARY DISCUSSION

GAO Views. A GAO report issued in April 1979 analyzed the information and methodology used by the Federal Preparedness Agency in determining a 1976 zero stockpile goal for silver. More recent goals had not been formulated at that time.

Based on this analysis, GAO agreed that the 139.5 million troy ounces of silver currently stockpiled were not needed for national defense purposes. GAO subsequently testified before Congress that it appeared advantageous, from a defense standpoint, under the Strategic and Critical Materials Stockpiling Act of 1979, Public Law #96-41, to sell unneeded commodities such as silver and use the receipts to stockpile commodities that are needed. This Act provided that:

- Receipts from stockpile sales could only be used to buy other stockpile commodities,
- Receipts would remain available for use in a special "National Defense Stockpile Transaction Fund" for 3 years. After that time the receipts would revert to the Treasury as miscellaneous receipts.
- The appropriation process would be followed only for oversight in using amounts from the fund.

The intent of the Act was to insure that stockpile management would be based purely on national defense considerations by removing it from budgetary pressures that had affected it in the past. It was felt that past administrations had used sales receipts from stockpile transactions to "balance the budget," and that budgetary constraints had prevented the appropriation of additional funds for stockpile acquisitions.

There was apparent agreement that since amounts in the Fund did not involve the appropriation of additional funding these transactions would not be shown in the budget as affecting outlays or authority. However, Fund transactions have since been treated as affecting the budget and as such the Stockpile has been subjected to the same budgetary pressures as in the past.

Although legislation has been proposed to remove stockpile fund transactions from the budgetary process it has not as yet been passed into law. Consequently, although "newly" appropriated funds are not involved in using sales receipts from the Fund, and such monies cannot, at least initially, be used for other than buying other stockpile commodities, such transactions do give the appearance of affecting budget outlays and authority. Therefore silver sales will appear to increase revenues, and use of the receipts will appear to increase federal purchases.

Relevant GAO Reports. LCD-79-410, 4/10/79  
B-199216, 7/21/80

GAO Contact. Michael J. Rahl, 275-3698

ELIMINATION OF ONE SPACE SHUTTLE ORBITER

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	199	262	122	0	0	583
Outlays	147	240	157	36	3	583

NOTE: Preliminary estimates, subject to change.

The space shuttle program calls for four shuttles, with the fourth orbiter to be completed and delivered by 1984. The first three orbiters are capable of reliably performing 27 shuttle flights per year. The fourth orbiter, estimated to cost \$979 million, would provide program flexibility, enabling additional and/or multiple flights for either civilian or military purposes.

Eliminating the fourth orbiter would save less than its estimated cost of \$979 million. About \$51 million has already been authorized for fiscal year 1981. Moreover, part of the cost of the fourth orbiter cannot be separated from the common costs of manufacturing all the shuttles and from subcontractor overhead costs. Some of these costs would be redistributed over the remaining three orbiters if the fourth was eliminated. When NASA deleted its planned fifth orbiter, it estimated the savings to be \$365 million, or 63 percent of the estimated total costs for that shuttle. A realistic total savings estimate for deletion of the fourth orbiter would be 63 percent of the \$979 million, or \$583 million over the 1982-1986 period.

There might be some offsetting costs in the defense budget if any of the three orbiters was rendered inoperable and the planned flight schedule was maintained. In this event, the Department of Defense would need to purchase expendable launch vehicles, each costing about \$100 million, to execute its critical missions; or military missions might be given priority over civilian flights with the remaining orbiters.

## Elimination of One Space Shuttle Orbiter

### GAO Supplementary Discussion

GAO Views. In August 1978, GAO reported on its analysis of, among other things, the need for more than three orbiters. At the time of GAO's study, the administration was requesting four orbiters but both NASA and DOD had taken the position that five orbiters would be required. The report discussed GAO's analysis of the need for a three, four, or five orbiter fleet. GAO concluded that three orbiters may be more than enough to provide a balanced and viable space program, but it also recognized that a fourth orbiter would provide for fleet attrition.

GAO has not projected potential savings through 1986 if the fourth orbiter were eliminated, but we have no reasons to dispute CBO's projections.

Relevant GAO Report. PSAD-78-57

Contact. Steven F. Kuhta, 275-3191

ELIMINATION OF DOE FUNDING FOR SYNTHETIC FUEL DEVELOPMENT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	545	690	600	710	700	3,245
Outlays	250	465	605	710	725	2,755
Carter Budget						
BA	802	1,285	838	352	425	3,702
Outlays	697	1,085	1,074	546	371	3,773

NOTE: Preliminary estimates, subject to change.

The 96th Congress established the Synthetic Fuels Corporation to fund production of commercial-scale plants for synthetic fuel production processes. The plants must have passed an initial stage of development. Some processes that are not as far along are to be demonstrated on a smaller scale by the Department of Energy (DOE).

Five plants are now scheduled for small-scale demonstration. Two involve making synthetic liquids from coal: Solvent Refined Coal-1 (SRC-1), and Solvent Refined Coal-2 (SRC-2). Two would make high-BTU gas from coal, and a fifth would make medium-BTU gas. The plants are to demonstrate these technologies on a scale large enough to provide assurances that a full-size plant employing them is feasible. The demonstration plants will be funded through DOE.

Such demonstration plants may assist in eliminating technological uncertainties that deter private investment in full-scale synthetic fuel plants. Yet they need not be funded through the DOE budget. There is reason to believe that sufficient private capital is available in the energy industry to develop new energy technologies. Moreover, the funding of any technology through DOE undermines the competition among technologies for fixed funds within the Synthetic Fuels Corporation, and reduces the long-term effectiveness of federal expenditures to develop synthetic fuels production. Eliminating DOE funding of the five demonstration plants would save approximately \$2.8 billion in outlays over the next five fiscal years.

President Carter's budget recommendations for fiscal year 1982 include the deferral of one of the high-BTU gas plants. This will not significantly affect the savings given above. The President's budget also assumes a faster rate of plant completion than does the CBO baseline.

Elimination of DOE Funding for  
Synthetic Fuel Development

GAO Supplementary Discussion

GAO Views. GAO issued a report on February 4, 1981 to the Congress concerning the control of Federal costs for DOE's coal liquefaction program. The report discussed the design and construction problems of two direct liquefaction pilot plants using the H-Coal and Exxon Donor Solvent processes. It attributes the difficulties to DOE's premature commitment to contracting and to poor construction and contract administration by the contractors. The problems greatly increased cost and schedule slippages of these pilot plants.

The report also discusses two other direct liquefaction processes, Solvent Refined Coal I and II. Demonstration plants for these latter two processes are presently under detailed design and are scheduled for a construction start in March 1981. These plants are estimated to cost \$1.4 billion each, with U.S. private sponsors agreeing to invest \$100 million or about 7 percent of the estimate for each project. Also, the Federal Republic of Germany and Japan have shown interest in SRC II and are each prepared to contribute 25 percent of the project costs.

GAO believes DOE should be concerned about the small percentage of investment on the part of U.S. private sponsors for both SRC projects. To lessen the Government's financial burden, GAO recommended that the Secretary of DOE should obtain a more equitable percentage of investment from private sponsors for all phases of the energy projects to assure they share in the risks and fully apply their expertise toward assuring sound management, including adequate controls over cost and schedule.

Relevant GAO Reports. PSAD 81-19, EMD 80-81

Contact: Joseph C. Bohan, 275-3469

## ELIMINATION OF DOE FUNDING FOR SYNTHETIC FUEL DEVELOPMENT

### GAO Supplementary Discussion

GAO VIEWS. Although GAO has not reported on the issue of eliminating the DOE synthetic fuel demonstration plants, we do have some thoughts to offer based on our experience in this area. These thoughts pertain to (1) DOE versus Synthetic Fuels Corporation (SFC) funding of demonstration plants and (2) anticipated proposals for the total elimination of demonstration plants.

In regard to DOE versus SFC funding of demonstration plants, we have taken the position that the SFC's role in research and development should be limited and that its primary mission should be to provide financial assistance to industry for achieving synthetic fuels production. The SFC will need to be staffed to fulfill its primary mission and may have limited expertise and manpower for managing and monitoring technically risky demonstration plants. Further, even if the SFC were to fund demonstration plants, companies would most likely want to proceed under the SFC joint venture provision which is similar to DOE's cost sharing program. Thus, if responsibility for these demonstration plants were transferred to SFC from DOE and the cost to the Government were similar to those for projects funded by DOE, consideration must be given to (1) whether the Corporation can provide adequate oversight and (2) what the impact would be on achieving the already ambitious production goals established for SFC. If SFC funding is transferred from production oriented plants to demonstration efforts, there is even less likelihood of achieving the production goals.

There are a number of factors to consider on the issue of eliminating Government assistance in the demonstration phase entirely in the hope that industry would finance demonstration plants alone. While CBO states that private capital is sufficient to accomplish this task, it should be determined whether industry would be willing to pursue these types of projects. In our view it is questionable whether any company would be willing to spend about a billion dollars and accept the large technical risk involved in building more advanced second generation demonstration plants which are not expected to be profitable. Further, if industry does not build them and the second generation technologies do not advance past the R&D phase, the results of DOE's R&D may go unused and the country may be committed to the less efficient first generation technologies. In the past we have expressed concern that care must be taken to pace development in a way that will not overcommit the Nation to an early, inefficient technology. Industry, given the choice between the proven, less efficient, first generation technologies and the unproven, more efficient, second generation technologies is likely to either go where the risks are lower or not do anything at all.

RELEVANT GAO REPORTS: EMD-78-57, EMD-79-99, EMD-79-107, EMD-80-18, EMD-80-84

CONTACT: Flora Milans, 353-3408

TERMINATION OF THE CLINCH RIVER BREEDER REACTOR PROJECT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	300	350	350	300	200	1,500
Outlays	175	275	325	330	275	1,380
Carter Budget						
BA	0	0	0	0	0	0
Outlays	0	0	0	0	0	0

NOTE: Preliminary estimates, subject to change.

Breeder reactors are nuclear reactors that produce more fuel material than they consume. Public debate over the commercialization of breeders has centered on the dangers of theft and diversion of nuclear materials, proliferation of nuclear weapons, increased accidents, and hazards to health. The economic efficiency of breeder reactors is also debatable, as are the questions of if and when they will be needed.

The federal government has been supporting breeder reactor research and development to ensure that, if the country moves forward with breeder reactors, the safest and most efficient technologies will be used. Approximately \$750 million was appropriated in each of fiscal years 1979 and 1980 for programs supporting breeder research and development.

One part of these efforts, the Clinch River Breeder Reactor Project, has caused particular controversy. The Clinch River project was originally intended to demonstrate that a liquid-metal fast breeder reactor could be operated reliably and safely as part of a public utility electric supply system. This demonstration project is considered by some authorities to be outdated and unnecessary. Their objections are based, in part, on the project's escalated costs and engineering and technical uncertainties. In addition, France has made a strong commitment to the breeder reactor and appears to have more advanced technologies at later stages of development. The need for the Clinch River demonstration reactor may therefore be obviated by the possibility of licensing a French design. Terminating the project could save the government approximately \$1.4 billion over the five-year period 1982-1986.

The need for this project has been debated extensively. The General Accounting Office has, for example, argued that the general breeder programs need the direction and focus provided by such a demonstration facility. From 1977 onward, the Carter Administration tried to terminate the project, although the Congress continued to fund it. The project was not included in the President's 1980 budget recommendation, but \$172 billion was nevertheless appropriated for that purpose. The President's 1981 budget recommendation was once again to stop funding it, which could have saved the federal government a total of about \$1.7 billion—the cost of completing the project. Nevertheless, the Congress continued funding for the project through June 5, 1981, at the fiscal year 1980 levels.

Terminating the Clinch River project would not necessarily imply permanent rejection of the fast breeder reactor program. It would indicate only that this specific project was deemed no longer appropriate. In fact, the Congress has provided over \$490 million in fiscal year 1981 for continued research and development in other breeder reactor programs. If in the future another demonstration facility should be deemed necessary, spending on such a project might exceed the savings from terminating the Clinch River Breeder Reactor.

President Carter's budget recommendations for fiscal year 1982 again assume no funding for the Clinch River project, so adoption of this item will not result in any savings relative to the Carter budget.

## Termination of the Clinch River Breeder Reactor Project

### GAO Supplementary Discussion

GAO Views: The future of the Clinch River Breeder Reactor (CRBR) has been a matter of controversy between the executive branch and the Congress for several years. The issues framing this controversy are complex and are integrally tied to how the Nation views the future role nuclear power is to play in the U.S. energy supply mix.

Our primary concern is that CBO's analysis portrays the CRBR as an activity that can be shut off and perhaps resurrected if and when the need arises. Accordingly, the analysis implies that the CRBR is an isolated project having little or no relationship to the other research and development activities in support of the breeder program or to the nuclear industry itself. In this regard, it does not discuss the role CRBR or any similar demonstration plant has in an overall technology development strategy. However, a large portion of the underlying research and development work now being funded by DOE is geared to supporting the successful operation of a demonstration facility, in this case CRBR. Without a demonstration plant of some kind, be it CRBR or some larger, more recently designed facility, the technology development program would not be adequately focused and would result in a lot of wasted time and money which would have the effect of offsetting some of the savings from terminating the CRBR project.

Moreover, as the CBO points out, there is a great deal of controversy surrounding if and when commercial breeder reactors will be needed in this country. Consequently, it is important that the United States be in a position to deploy this energy option if and when the need arises. The timing of the CRBR plant or any facility that might replace it as the centerpiece of the U.S. breeder reactor program is crucial to this Nation's ability to commercially deploy this option, if needed, to meet long-term energy needs. Without a plant to demonstrate to industry, utilities and the public that breeder reactors can be operated safely, reliably, economically, and cleanly the long-term ability of the United States to promptly respond to its electrical energy needs is threatened. In this regard, the CBO report does recognize that "If in the future another demonstration facility should be deemed necessary, spending on such a project might exceed the savings from terminating the Clinch River Breeder Reactor."

Over the past six years, we have reported to the Congress on various aspects of the CRBR and the entire breeder reactor program. Generally, these reports supported the need for a demonstration plant in order to move the technology forward in a timely and efficient manner. In our most recent report, issued in September 1980, we concluded that without the construction and operation of CRBR or a replacement demonstration plant, the breeder program lacks a clear mission and does not provide necessary assurances that the requisite institutional conditions for commercializing the option—industrial capability and utility confidence—will be in place to allow for a smooth transition to this particular energy supply

option if and when it is needed. Further, we concluded that the construction and operation of a demonstration plant is needed in order to keep the technology development moving forward. Accordingly, we recommended that if Congress cannot reach a resolution on whether to build a demonstration plant and thus preserve the breeder option, it should consider terminating the program.

CBO's assertion that licensing a French-designed breeder reactor for use in the United States may obviate the need for the CRBR may or may not be true. It is an important issue that, we believe, requires further study to get an understanding of how all of the economic, institutional and technical issues affect this alternative. We plan to begin a review of this matter in the spring of 1981 and issue a report early next year.

Relevant GAO Reports: EMD 80-81, EMD 79-62

GAO Contact: John Harman - 353-5759

PRIVATE FINANCING OF THE STRATEGIC PETROLEUM RESERVE

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<hr/>						
CBO Baseline						
BA	3,780	4,600	3,815	3,740	2,820	18,755
Outlays	4,100	4,850	4,395	4,030	3,020	20,395
Carter Budget						
BA	3,898	3,645	2,517	2,948	7,127	20,135
Outlays	3,660	4,050	2,703	2,425	4,491	17,329

NOTE: Preliminary estimates, subject to change.

Now that the price of domestically produced crude oil has been decontrolled, the purchase of oil for the Strategic Petroleum Reserve (SPR) will be funded entirely through direct appropriations. The benefits of the SPR would be sizable if oil supplies should be disrupted in the future. CBO analysis suggests that each barrel of Strategic Reserve oil might save up to several hundred dollars in lost GNP. The Energy Security Act of 1980 mandated that the reserve be filled at a minimum average rate of 100,000 barrels per day. This proposal assumes a fill rate of approximately 180,000 barrels per day over the next five fiscal years, which would result in outlays of \$20.4 billion for the period. Filling the reserve at these rates will be expensive.

An alternative would be to finance the Strategic Reserve through private funds. Since the price of oil will almost certainly rise in real terms over the next decade, shares in the reserve could be made attractive to investors. One option would allow the public to buy shares of the reserve in the same way that any other speculative asset is bought. Holders of reserve barrels could sell the titles to them on an open market. When the reserve was drawn upon during a disruption in foreign supplies, the holders of titles to the oil in the reserve would be compensated at the market price.

Another option would entail directing (through regulation) or inducing (through tax incentives) refiners and major oil users to hold excess inventories--an Industrial Petroleum Reserve, as it has

been called. Under the Energy Policy and Conservation Act of 1975, the Secretary of Energy has the right to direct such firms to hold up to 3 percent of their average annual use of oil in special inventories that cannot be depleted without government approval. This would place a financial burden on the firms involved. If the inventory requirement were reduced to 1 percent, however, this would still be the equivalent of a fill rate of 170,000 barrels per day for one year.

President Carter's budget recommendations for fiscal year 1982 contemplate a slightly different SPR five-year funding pattern from that in the CBO baseline. The savings relative to the Carter budget, if this item is enacted, are thus also slightly different.

## PRIVATE FINANCING OF THE STRATEGIC PETROLEUM RESERVE

### GAO Supplementary Discussion

GAO VIEWS. CBO discussed two options for financing the SPR. These options include (1) allowing the public to buy shares in the reserve in the same way as other speculative assets are bought and (2) using regulations or tax credits to induce refiners to increase their inventories, referred to as the Industrial Petroleum Reserve option. Although these options reduce Government spending for SPR oil acquisitions, each option also has potential disadvantages. Either option could require extensive legal preparation delaying implementation. With an Industrial Reserve, the added costs incurred by industry to maintain these reserves may be passed on to consumers.

Other options for financing the SPR not discussed by CBO include:

1. A user tax which could be levied on users of petroleum products. A tax of one cent a gallon on gasoline would raise about \$1 billion a year. However, this tax may not be attractive when oil prices continue to increase.
2. In-kind tariff which would be imposed on importers of crude oil or refined products. This tariff would be based on the amount of oil or products imported. This option has two potential disadvantages. The importers could pass the increased costs resulting from the tariff to consumers. Also, the Government would have less direct control over the quantity and quality of oil and products delivered, compared with the Government's current approach of issuing contracts for oil to be delivered to the SPR.

RELEVANT GAO REPORTS: ID-79-3; EMD-77-20

CONTACT: Flora Milans, 353-3408

REDUCED FUNDING FOR THE ECONOMIC REGULATORY ADMINISTRATION

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	62	69	77	84	93	385
Outlays	60	67	74	82	90	373
<b>Carter Budget</b>						
BA	51	27	18	12	12	120
Outlays	53	27	18	12	12	122

NOTE: Preliminary estimates, subject to change.

The Department of Energy's Economic Regulatory Administration (ERA) implements regulatory laws, intervenes in regulatory procedures, plans for energy emergencies, and exercises emergency responsibilities. Almost half of the \$177 million 1981 ERA budget, however, is associated directly with the price controls on crude oil and petroleum products. The recent decontrol of domestic oil prices reduces the need for many of these oil pricing and allocation functions. Eliminating the funds for these oil-related activities could save about \$373 million between 1982 and 1986. In addition, an immediate reduction in the funding for these activities could save about \$25 million in fiscal year 1981. This proposal allows about \$60 million for resolving outstanding cases.

Although many of its activities concern the pricing and allocation of crude oil and petroleum products, the ERA has begun concentrating more heavily on the implementation of the Fuel Use Act and the Public Utilities Regulatory Policies Act. The ERA is also responsible for maintaining standby fuel rationing plans and participating in other emergency preparedness activities. Therefore, budget cuts reflecting the decreased need for oil pricing and allocation activities might limit the ERA's ability to shift its resources to these other areas.

President Carter's budget recommendations for fiscal year 1982 include \$65 million in 1982 outlays for ERA activities related to oil price controls. This represents a \$19 million reduction from 1981 spending levels, and allows for ongoing audits and litigation. The budget request proposed further reductions in these programs through 1986, reflecting implementation of this proposal, although more gradually than assumed here.

## Reduced Funding For The Economic Regulatory Administration

### GAO Supplementary Discussion

GAO Views. GAO has issued a number of reports dealing with ERA activities and currently has several ERA assignments in process. One assignment, dealing with ERA's enforcement of its oil pricing regulations, has particular relevance to this subject area. We are now preparing our draft report, which will discuss the many problems encountered by DOE in attempting to resolve the billions of dollars in alleged pricing violations.

The report will contain an evaluation of (1) the adequacy of DOE's audit coverage, (2) the timeliness of corrective actions taken, (3) the basis for and the impact of oil company challenges to DOE regulations, (4) the adequacy of the settlements negotiated by DOE with oil companies, and (5) the current working relationship between DOE and Justice in handling both criminal and civil litigative matters. We expect to issue the report during the latter part of March 1981.

One of the principal problems facing DOE now that oil decontrol has been effected is the large number of unresolved cases involving billions in alleged violations. We will express our view that DOE should develop a plan calling for the orderly resolution of all violations and litigation outstanding on January 2, 1981, the expiration date for DOE's regulations. We believe such resolutions are important in the interest of fairness to the companies that did not violate pricing regulations and to those companies that agreed to settle their violations. We also believe that a failure to follow through on these charges could set a dangerous precedent for any future enforcement regulations established to implement Federal laws.

We did not attempt to quantify the funding and personnel requirements to implement the plan.

Relevant GAO Reports. EMD-80-34, EMD-81-31

Contact. Gerald H. Elsken, 275-3551

INCREASED WATERWAY USER CHARGES

	Annual Added Revenues (millions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
No subsidy	1,170	1,280	1,400	1,530	1,650	7,030
50 percent subsidy	560	610	660	710	760	3,300
<b>Carter Budget</b>						
No subsidy	1,210	1,590	1,650	1,640	1,630	7,720
50 percent subsidy	580	770	790	760	750	3,650

NOTE: Preliminary estimates, subject to change.

The federal government has subsidized inland waterway transportation through construction, operation, and maintenance of inland waterway facilities. Over the next five years, the Army Corps of Engineers will spend an estimated \$7.5 billion for inland navigation purposes. Approximately \$440 million of these expenditures will be recovered through the existing waterway user charges, leaving a federal subsidy of about \$7.0 billion over the 1982-1986 period.

Current waterway user charges, in the form of a fuel tax, were established under the Inland Waterways Revenue Act of 1978. These charges take effect in 1981 and will be phased in over the next five years, rising from 4 cents a gallon at the outset to 10 cents in 1986 and thereafter. The estimated \$440 million in receipts for the five-year period 1982-1986 will cover only 6 percent of projected federal expenditures for waterway navigation purposes during the period.

Full recovery of these costs through a fuel tax would require a tax equal to about \$1.30 a gallon. Such a high tax is impractical and unlikely to be imposed because of administrative problems and because fuel consumption does not necessarily reflect the benefits received by a given waterway user. The same revenues could be raised through fees or tolls that reflect the actual costs of constructing, maintaining, or operating a particular waterway seg-

ment. The use of segment tolls would mean that some marginal projects would not be built and others might be closed down. Thus, the estimated savings would consist of two parts--increased revenues through user fees and reduced outlays by the Corps of Engineers as certain projects were dropped.

The full recovery of total federal expenditures for inland waterways would result in taxpayer savings of approximately \$7.0 billion in 1982-1986. Most of the costs of increased user charges would be passed along to shippers and ultimately to consumers in the form of higher prices. The cost burden of waterway facilities would thus be shifted from the general taxpayer to the beneficiaries of these facilities--specifically, the barge industry, shippers, and consumers.

Shifting the full cost of waterway navigation facilities to the beneficiaries (or users) of such facilities would promote more efficient resource allocation. The rates charged to shippers would more nearly reflect the true economic costs of this form of transportation. Distortions in the choice among forms of transportation resulting from taxpayer subsidies would thus be reduced.

Users of waterway facilities might object to the imposition of charges to cover the full costs on the grounds that other forms of transportation are still subsidized. If charges were imposed to cover half of the costs of these projects, the cumulative savings over the 1982-1986 period would be approximately \$3.3 billion.

President Carter's budget proposal for fiscal year 1982 recommends a slightly higher program level for waterway projects than assumed in the CBO baseline. Thus, the savings from increased charges are even larger relative to the Carter budget.

## INCREASED WATERWAY USER CHARGES

### GAO Supplementary Discussion

GAO Views. GAO identified the following issues that the Congress will need to consider in establishing a national policy for funding inland waterways improvements and operations and in considering proposals for imposition of waterways user charges.

- The Federal Government has covered virtually the entire cost of developing and maintaining the inland waterways and has paid for it through taxes on the general public.
- The expansion of the waterway industry has reached a point where some main waterway arteries are becoming overcrowded.
- The Federal Government has always permitted free use of the waterways for industrial transportation and recreation.
- Environmental groups are generally opposed to increasing waterway traffic and are adamantly opposed to any projects which enlarge waterway facilities.
- Waterway traffic volume has reached a point where a relatively nominal user charge would allow for recovery of the annual operating costs.
- Operation and maintenance costs have increased due to inflation, more stringent dredging requirements and higher maintenance and repair needs for aging locks.
- If waterway carriers were assessed a user charge, all or a large part of the cost probably would be passed on to the shippers or receivers, causing some to seek alternative shipping modes.
- Diversion of waterway traffic to pipelines or railroads, caused by the imposition of waterway user charges, has some potential for energy savings and more efficient transportation but does not appear to be a major factor in establishing waterway user charges.

GAO did not make any recommendations; however, GAO pointed out that if user charges were kept at a rate that would not exceed 10 percent of existing barge rates--a rate sufficient to recover the waterways' 1973 operation and maintenance costs--some traffic diversion could be expected but most of the inland waterways shippers we interviewed did not believe this would result in any major diversion.

GAO does not have the information to verify whether CBO's projection of potential savings is accurate.

Relevant GAO Reports. RED-76-35, November 20, 1975.

Contact: Andrew Pasden, 376-8200

## Increased Waterway User Charges

### GAO Supplementary Discussion

GAO Views. GAO agrees with the principle of full recovery of future expenditures on inland waterways, since this would be both equitable and efficient.

Efficiency in the use of inland waterways can be increased, however, by changing the form of the charge from the present fuel tax, and by the use of congestion charges. Charges for waterways that cost more to construct and operate should be higher than charges for less expensive waterways. A fuel tax cannot accomplish this. However, segment charges which vary from one waterway to another can accomplish this.

In some cases, the operating costs of a waterway may be quite low relative to initial construction costs. In such cases, efficiency in waterway use can be enhanced by using a two-part tariff, which imposes a (commonly annual) fixed charge for access to the waterway, and a lower charge for each use of it. The fuel tax is, again, less efficient in these cases.

Finally, congestion charges should be used when demand for the use of a waterway exceeds its capacity. Such charges will even out demand, reducing or eliminating peak loads. Congestion charges may have to take the form of a tax, since they would not be associated with any cost incurred by the government. The legal restrictions on implementing congestion charges should be fully explored prior to implementation.

Relevant GAO Report. PAD-80-25.

Contact. Craig Simmons, 275-3588.

ELIMINATION OF THE STATES' SHARE OF LAND AND WATER CONSERVATION FUND

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	290	315	345	370	400	1,720
Outlays	135	185	255	315	345	1,235
<b>Carter Budget</b>						
BA	185	220	240	255	270	1,170
Outlays	85	125	170	220	240	840

NOTE: Preliminary estimates, subject to change.

The Land and Water Conservation Fund (LWCF) has two components: at least 40 percent of the fund is for federal purchases of land for parks, wildlife refuges, and recreation facilities; the balance is allocated to the states on a 50-50 matching basis for the acquisition and development of outdoor recreation facilities. If the portion allocated to the states was reduced in 1982 and ended thereafter, the annual savings would exceed \$300 million by 1985. In fiscal year 1981, the Congress appropriated \$229 million for the state share of the LWCF, compared with \$300 million in fiscal year 1980.

Grants to state governments for state park land acquisition and similar purposes were not a federal responsibility until the mid-1960s. Since the program's inception, with virtually no exceptions, the states have provided the required matching funds, and the program enjoys wide support. In a sample of eight states, LWCF grants accounted for 18 to 37 percent of the state land acquisition and development budgets.

The argument for ending federal support for state recreation programs is that state facilities mainly serve state residents. Each state has the right to select whatever level and type of recreation it chooses, but it has no claim on taxpayers nationwide.

The case for continuing the federal grant program is based on two assumptions: first, that development of state facilities reduces public dependence on federal facilities; second, that

national benefits, even if not directly measurable, accrue from expansion of state-managed outdoor recreational facilities. If such facilities were not available, the public use of federal parks and refuges would increase substantially. The unique nature of certain federal facilities could be lost if they were overused.

President Carter's budget recommendations for fiscal year 1982 contemplate a lower LWCF share for the states than that assumed in the CBO baseline. This accounts for the differences in savings shown above.

Elimination of the State's Share of

Land and Water Conservation Fund

GAO Supplementary Discussion

GAO Views. We believe that additional savings are possible in both the Federal and State share of the Land and Water Conservation Fund (LWCF).

Substantial savings could also be realized--\$722 million--if the Federal share was virtually eliminated except for 10 percent to cover outstanding commitments.

We issued a report on December 14, 1979, which pointed out that at the present time, the Federal Government has no overall policy of how much land it should protect, own, and acquire. Federal agencies with major land management and acquisition programs have followed the general practice of acquiring as much land as possible regardless of need, alternative land control methods, and impacts on private landowners. Consequently, lands have been purchased that were not essential to achieving project objectives, and before planning how the land was to be used and managed.

We stated that congressional oversight in implementation of our recommendations is needed because of the

- large sums of money available from the Land and Water Conservation Fund for acquisition of private lands;
- practice followed by Federal agencies of acquiring as much private land as possible resulting in unnecessary land purchases and adverse impacts on private landowners;
- successful use of alternatives to full-title acquisition to achieve project objectives; and
- reluctance on the part of many agency officials to use less than full-title acquisition to achieve project objectives.

Further, the Federal Government has a backlog of over \$3 billion needed to rehabilitate, upgrade, and replace facilities. We reported that the Park Service and Forest Service needs \$1.7 billion--part of the \$3 billion--to upgrade facilities to protect the health and safety of visitors and employees. Additional Federal land acquisition of private lands would add to the backlog as well as increasing operation and maintenance costs. Therefore, cutting the Federal share 90 percent could also reduce the need in the future for developmental funds.

It is not possible to quantify the total benefits and measurable savings that would result if our recommendations are adopted although we believe them to be substantial. The Congress used our report as a contributing factor to cut about \$41.5 million from the Departments of Agriculture and the Interior's 1980 appropriation request for land acquisition. Further, if the use of easements, zoning and Federal regulatory protection controls could reduce Federal expenditures by 90 percent, savings of about \$323 million of the \$359 million appropriated in fiscal year 1979 could have been realized.

Should the Federal share of LWCF be cut by 90 percent during the next five years, savings would be as follows:

90 percent cut in Federal share of the Land and Water Conservation Fund

<u>Savings by Fiscal Year</u>					<u>Cumulative Five-Year Savings</u>
(millions of dollars)					
<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	
88	119	157	169	189	722

If the States' share of the LWCF is eliminated, the potential savings of Federal funds could be greater than that identified by CBO.

On November 1, 1979, we issued a report on the State portion of the LWCF concerning the use of other Federal grant-in-aid programs to finance all or part of the local LWCF matching requirement.

We identified 500 recreation projects that received financial assistance through the LWCF and other Federal programs. The total cost of these projects amounted to about \$144 million with the LWCF contributing about \$66 million and other Federal programs contributing about \$47 million for a total of \$113 million in Federal funding. The Federal share therefore was 78 percent. If the State side of the LWCF were eliminated and the State did not go forward with their projects, this additional Federal expenditure of \$47 million could have been saved.

Through fiscal year 1979 about 25,000 State projects were funded with LWCF monies. We do not know how many other Federal dollars were used to help fund these projects. Should the 78 percent total Federal funding hold up for all projects, potential Federal savings for the five fiscal years would be \$1,225 million more than \$1,720 million estimated by CBO as follows:

<u>Savings by Fiscal Year</u>					<u>Cumulative Five-Year Savings</u>
(millions of dollars)					
<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	
496	539	591	634	685	2,945

These savings would occur if the States did not go forward with the projects or use these funds for other purposes.

Additional savings might be realized on the State side by elimination of the LWCF because Comprehensive Employment Training Act funds are used extensively to operate and maintain local recreation areas.

Relevant GAO Reports. CED-81-10, CED-80-115, CED-80-14, CED-80-23

Contact: Philip A. Olson, 376-8212

ELIMINATION OF URBAN PARK GRANTS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	70	80	85	90	100	425
Outlays	5	30	50	70	70	225
<b>Carter Budget</b>						
BA	75	75	75	75	75	375
Outlays	5	25	45	60	65	200

NOTE: Preliminary estimates, subject to change.

In 1978, the Congress enacted a five-year grant program for the rehabilitation of urban park and recreational facilities. The program matches 70 percent federal to 30 percent local funds to rehabilitate urban recreational facilities that have deteriorated. Local communities will continue to operate and maintain the facilities after rehabilitation. The savings from ending the program (assuming that it would otherwise be renewed on expiration of the current authorization) would total about \$225 million during the next five years.

The argument for eliminating the urban park grant program is the same as that for ending the state share of the Land and Water Conservation Fund. In both cases, federal funds simply substitute for local funds. It is not clear that the national taxpayer should support a level of local recreational opportunity that local taxpayers are unwilling or unable to support.

The counterargument holds that there is a national interest in preserving or improving the "quality of life" for urban residents. Furthermore, it is argued that some urban facilities serve many more than local users—that in fact some are national resources and should receive federal support.

President Carter's budget recommendations for fiscal year 1982 contemplate a slightly lower 1983-1986 funding level for this program than that assumed in the CBO baseline. This accounts for the differences in savings shown above.

## Elimination of Urban Park Grants

### GAO Supplementary Discussion

GAO Views. CBO's argument for eliminating the urban park grant program can be extended to include the National Park Service's urban national recreation area program. The Park Service estimates expenditures of over \$313 million to develop and acquire land for the first three recreation areas--Golden Gate, Gateway, and Cuyahoga Valley--established under the program. Two additional recreation areas established in late 1978--Santa Monica and Chattahoochee--have authorized expenditures of about \$200 million for land acquisition.

On June 19, 1979, we issued a report to the Secretary of the Interior on our review of the urban national recreation area program. We made our review to assess whether the program was meeting its objectives of providing recreational needs of urban populations and protecting and preserving significant natural and scenic settings near large cities.

In the case of the urban national recreation area program, Federal funds are--like the urban park grant program--a clear substitute for local funds and most of the visitors come from the surrounding communities. The urban national recreation area program marked the beginning of the Federal Government's involvement in providing urban recreation to inner city residents.

Our June 1979 report pointed out that the urban national recreation areas were not being used very often by transit-dependent, low-income, inner city residents who need recreational opportunities the most. The report also noted that about 45 percent of the lands within the recreation areas were owned by State and local governments. Since less than half of these lands had been donated to the Secretary, we recommended that the Secretary examine ways to accomplish the recreation areas' objectives without Federal land ownership.

Relevant GAO Reports. CED-79-98.

Contact: Philip A. Olson, 376-8212

INCREASED CHARGES FOR OUTDOOR RECREATION AND TOPOGRAPHIC MAPS

	Annual Added Revenues (millions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
<hr/>						
CBO Baseline and Carter Budget						
Recreation fees	45	65	70	70	75	325
Map charges	5	10	10	15	20	60

NOTE: Preliminary estimates, subject to change.

State and local parks support much of their programs through entry and user fees, yet the U.S. Park and Forest Services collect only about \$35 to \$40 million a year in user fees—far less than 10 percent of their budgets for recreational services. The Services collect fees from only a portion of their users for several reasons: collecting is often not cost effective; the Services face a number of legislative restrictions on fees; the Services are not allowed to retain their receipts; and there is some sense that public facilities should be free. As a result, many visitors pay no entry fees, and most user fees are little more than nominal charges. For example, hook-up fees for camping vehicles have been so low—about \$2.00 a night—that neighboring private facilities cannot compete with the federal facilities. Visitors are thus given an extra incentive to use park facilities, often overcrowding them. The savings estimates given here assume a doubling of existing entry fees and the imposition of fees at more facilities. Furthermore, they assume that service or user fees would be increased until they covered all costs of the Services. Total added collections in the 1982-1986 period would be about \$325 million.

The Geological Survey produces topographic maps at different scales for a wide variety of users. In fiscal year 1981, receipts for sales of maps were about \$7 million, while program costs were about \$75 million. By law, the Geological Survey is now only allowed to recover only printing and distribution costs through its charges for maps. This option assumes that fees would be increased during the next five years until about one-third of all program costs were recovered.

Increased Charges For Outdoor Recreation And

Topographic Maps

GAO Supplementary Discussion

GAO Views. We issued a report to the Senate Committee on Energy and Natural Resources on how well hotels, employee dormitories, water systems, sewage systems, bridges, and tunnels in national park and forest areas comply with national and State health and safety standards. We reported that the National Park and Forest Services have not protected the health and safety of their visitors and employees.

We estimated that Park Service needs \$1.6 billion to correct identified health and safety deficiencies and that, the Forest Service needs an estimated \$109 million. The Congress would have to appropriate about \$342 million a year to fund these projects over a 5-year period. The alternatives are to (1) close dangerous facilities, thereby reducing recreation opportunities for Americans, or (2) find alternative funding methods. We explored two alternative funding methods that do not require additional congressional appropriations.

--User charges (entrance and camping fees) could be raised or collected at additional locations and used to correct health and safety deficiencies.

--Concessioners could be required to make health and safety improvements on facilities they own or manage.

The National Park Service attempted to raise entrance fees at some units and charge fees at some additional units to increase fee revenue by \$12 million in 1979. However, congressional legislation (Public Law 96-87) limited entrance fees charged at units of the national park system to those areas and rates which were in effect on January 1, 1979.

Legislative history shows that a major reason for limiting fees was that the Congress disagreed with the Park Service's plan to reduce the Park Service maintenance fund account by the amount of the increase in fees collected. We believe that all revenue from increased fees should be used for health and safety projects that would not otherwise be funded and that the revenue should not be used to replace any other Park Service funding.

Regarding user charges, we recommended that the Congress repeal section 402 of Public Law 96-87 (93 Stat. 666) to permit the Park Service to increase entrance fees and direct that the Park and Forest Services use funds resulting from increased entrance and camping fees for health and safety projects in the parks and forests where they are collected.

Relevant GAO Reports. CED-80-115.

Contact: Joseph A. Maranto, 376-8212

REDUCED FUNDING FOR EPA CONSTRUCTION GRANTS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	1,260	1,390	1,530	1,670	1,820	7,670
Outlays	70	260	600	1,030	1,360	3,320
<b>Carter Budget</b>						
BA	1,240	1,330	1,470	1,570	1,670	7,280
Outlays	70	250	590	1,010	1,320	3,240

NOTE: Preliminary estimates, subject to change.

The Environmental Protection Agency (EPA) makes grants to municipalities for the planning, design, and construction of wastewater treatment facilities. EPA provides 75 percent of the allowable construction costs, or 85 percent if the project employs alternative or innovative technology. Funding levels have averaged almost \$4 billion a year, making it by far EPA's largest program in terms of direct budgetary outlay. EPA estimates that \$106 billion (in 1978 dollars) will be needed for construction and repair of municipal wastewater treatment facilities and sewers between 1978 and 2000. An additional \$62 billion will be needed for control of storm water runoff.

The program has three principal problems. First, because of the 75-85 percent federal payment for capital costs with no assistance for operating and maintenance costs, overly expensive and needlessly sophisticated treatment plants are built, which are then poorly maintained. Second, because the Congress has repealed the section of the 1977 Clean Water Act that allows industrial plants to be charged for the portion of wastes they generate, the program does not change the incentives of waste generators. Third, because the states must use their allocated funds within a specified period or lose them through reallocation, many projects receiving funding are those "ready to go," rather than those that may be of higher priority but are not yet ready.

One possible change would reduce the federal share of construction costs (perhaps to 50 percent, and to 55 percent for

innovative technology), with corresponding funding reductions. The estimated savings from this action are shown in the table above. Additional outlay reductions of \$10 million in fiscal year 1982, and totaling \$950 million over the five-year period, could be achieved by a 25 percent reduction in the building program. Still further savings could be achieved by removing the current two-year time limit on the obligation of funds. While these changes were being considered by the Congress, EPA could institute controls so that the \$6 billion currently appropriated but not obligated would be spent in a more cost-effective manner.

A reduced federal role in the construction of treatment facilities would increase the burden on municipalities and states. This could be partially offset if the reduced federal payment for construction costs was coupled with a partial federal payment for operations and maintenance costs, perhaps leading to more efficient wastewater treatment than the present system.

Deferrals in the building program would be made up in later years, but the delay would permit capturing future improvements in technology and in understanding of measures for dealing with toxic pollutants. However, long-run costs could be greater than the short-run savings, if construction costs continue to increase faster than general inflation, and some short-run gains in water quality would be lost.

President Carter's fiscal year 1982 budget recommendations assume slightly lower program levels for EPA construction grants, thus accounting for the small differences in estimated savings shown.

Reduced Funding for EPA  
Construction Grants

GAO Supplementary Discussion

GAO Views: CBO's suggested changes to reduce the Federal share of construction costs to save 50 percent with corresponding funding reductions would result in substantial savings in the short run. GAO anticipates that several major problems would result from this rather drastic program change. The Clean Water Act 1983 and 1985 deadlines for fishable, swimmable waters and zero discharges would not be met. The local communities, already in financial difficulty, may not be able to obtain the financing to fund a 50 percent share. This will be a particular problem for small communities, which in the past, have not always been able to obtain the financing, or if they have, have imposed financial hardships on many residents, especially the older residents on fixed income. The same effect of a reduced Federal share could also be accomplished more simply by a reduction in Federal appropriations.

GAO questions the premise that funding of operations and maintenance costs would result in a more efficient wastewater treatment system. GAO's November 14, 1980 report discusses five major reasons why treatment plants did not reach their permit requirements; operation and maintenance deficiencies were just one reason. Design and equipment deficiencies, and infiltration/inflow and industrial waste overloads were the 4 other reasons. GAO believes all the deficiencies need to be addressed in order for the treatment plants to operate effectively. Further, a change to Federal financing costs which have historically been the domain of the municipality would represent a significant reversal in Federal-State-local responsibilities.

Relevant GAO Reports: CED-81-9, CED-80-92

Contact: David L. Jones, 755-9100

DISCONTINUANCE OF POSTAL SERVICE SUBSIDIES

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	1,756	1,727	1,761	1,746	1,760	8,750
Outlays	1,756	1,727	1,761	1,746	1,760	8,750
<b>Carter Budget</b>						
BA	1,050	800	738	726	758	4,072
Outlays	1,050	800	738	726	758	4,072

NOTE: Preliminary estimates, subject to change.

The federal government currently supports the U.S. Postal Service through two types of payments—one for revenue forgone because of reduced postage for certain mailers, and another for public services that are not cost effective. If these annual payments were eliminated in fiscal year 1982, through either appropriation or authorization action, cumulative budget savings could total about \$8.8 billion by 1986.

The revenue forgone payment reimburses the Postal Service for providing free postage to blind and handicapped persons and for reducing second, third, and fourth class postage for certain mailers—mainly religious and other nonprofit organizations, small newspapers, libraries, and educational institutions. Proponents maintain that such reduced rates promote the flow of news and educational, cultural, literary, and charitable materials. Opponents argue, with respect to nonprofit institutions, that the subsidy is not well targeted, results in overuse of solicitations by mail, and increases the volume of junk mailings; with respect to small newspapers, they contend that it serves no interest except to subsidize publication profits and the rates paid by advertisers.

The public service payment helps finance operations, such as postal facilities in remote areas and Saturday mail delivery, that are not cost effective. Elimination of this payment could require either an increase in postage rates or a cut in the services the payment supports. The General Accounting Office is analyzing

the postal transportation network in the belief that significant potential exists for cost reduction. If that potential should in fact be realized, the savings could be used to support some services the Congress would cease to subsidize.

The Omnibus Reconciliation Act of 1980 authorizes payment of \$1.2 billion rather than the \$1.6 billion requested by the U.S. Postal Service. But, the continuing resolution making appropriations for fiscal year 1981 included \$1.6 billion for the Postal Service.

President Carter's budget recommendations for fiscal year 1982 assume a phased discontinuance of the public service payment (but continuation of the revenue forgone payment), thus accounting for the lower savings shown, relative to the Carter budget.

DISCONTINUANCE OF POSTAL SERVICE SUBSIDIES

GAO Views. The potential for cost reductions and revenue exists in various facets of the Postal Service's operations. In addition to the ongoing analysis of the postal transportation network, GAO's current reviews of the Service's management information systems and its revenue protection efforts could identify additional areas for realizing cost savings and generating income. Also a recently issued GAO report recommended improvements to reduce the Service's susceptibility to fraud, abuse, and waste in its procurement and use of gasoline and diesel fuel.

Relevant GAO Reports. GGD-80-75.

Contact. Willis Elmore, 245-5397.

REDUCED FUNDING FOR AMTRAK

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	200	340	400	425	550	1,915
Outlays	200	340	400	425	550	1,915
<b>Carter Budget</b>						
BA	120	270	335	370	480	1,575
Outlays	120	270	335	370	480	1,575

NOTE: Preliminary estimates, subject to change.

Amtrak currently operates passenger railroad trains along 36 intercity routes and in the Northeast Corridor between Boston and Washington. The system serves cities in 45 states but accounts for less than 1 percent of intercity passenger traffic. Nevertheless, Amtrak receives over one-third of all federal subsidies for intercity passenger travel. Amtrak passenger mileage increased about 8 percent between 1977 and 1980, but the federal subsidy for its operating losses rose 35 percent over the same period, from \$483 million in fiscal year 1977 to \$650 million in 1980, and it is projected to increase to approximately \$1.2 billion in 1986 if the present system is maintained. The federal government also provides all of Amtrak's capital funding, which was approximately \$200 million in fiscal year 1981.

If 40 percent or more of the Amtrak routes--those with the poorest ridership, the highest deficits, and the least potential--were dropped by the beginning of fiscal year 1982, the annual federal subsidy could be reduced by over \$500 million by fiscal year 1986. Additional savings, not shown in the table above, could be achieved by ending federal support for routes now subsidized jointly by federal, state, and local authorities, and by reducing Amtrak's support of routes that operate principally as a commuter service.

Three main arguments are made for reducing the Amtrak subsidy. First, most routes outside the Northeast Corridor hold little

or no promise for either increased patronage or reduced costs, thus presenting continually increasing demands for federal subsidies. Second, the federal subsidy for Amtrak--roughly 18 cents per passenger mile in fiscal year 1980, or almost \$40 per passenger--already far exceeds that provided other transportation modes. Commercial aviation receives less than 1 cent per passenger mile in federal subsidies. The intercity bus industry, a more direct competitor with Amtrak, receives even less--approximately one-tenth of a cent per passenger mile. Third, there is little evidence that the return on the federal investment in Amtrak, expressed in such terms as environmental benefits or energy savings, justifies the subsidy. A 1979 CBO report suggested that the nation would actually save energy if all Amtrak service outside the Northeast Corridor were halted. Department of Transportation studies contain similar evidence.

The argument for maintaining the current Amtrak system is that it provides reliable transportation to many areas that have no air service and where bus service is often subject to weather interruptions. Also, some persons argue that Amtrak ridership will increase dramatically when new equipment is introduced and service is improved.

President Carter's fiscal year 1982 budget recommendations for Amtrak are lower than those assumed in the CBO baseline thus accounting for the savings differences shown in the table.

REDUCED FUNDING FOR AMTRAK

GAO SUPPLEMENTARY DISCUSSION

GAO Views: GAO has issued several reports on Amtrak, but the one that relates most directly to the CBO analysis deals with the relationship between Amtrak's subsidy needs and its route structure. Consistent with the CBO analysis, GAO concluded that, although Amtrak could improve its operating efficiency, it cannot substantially reduce its operating costs without reducing the size of its system. GAO's report said that Amtrak needed to give continued attention to achieving lower direct labor costs, maintenance costs, and losses on food and beverage service. Improved efficiencies in these areas, however, will not substantially reduce Amtrak's subsidy need.

In another report analyzing 11 of Amtrak's most unprofitable routes, GAO found that, not only did the routes require substantial subsidies, but the trains wasted energy and efforts to improve service had not generally been successful. Some of these routes were subsequently discontinued, but most of them remain. Ridership generally increased on Amtrak trains because of the 1979 gasoline shortage, but some routes continue to be highly unprofitable and to carry relatively few passengers.

Regarding proposals to institute high speed rail passenger service in corridors outside the Northeast, GAO concluded that anticipated benefits may not be available or worth the cost and that substantial increases in ridership cannot be expected unless one of the other transportation modes is disrupted. Additional studies and reports by other organizations, primarily the Department of Transportation, have been completed since the GAO report was issued, but they have not focused on the overall costs and benefits of each of the corridors proposed for development. GAO believes that such information is essential in deciding if additional passenger corridors should be developed.

Relevant GAO Reports: CED-78-67, CED-78-86, CED-79-3

GAO Contact: J. R. Bolon, 426-1735

PHASING OUT OF CONRAIL FUNDING

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	0	250	300	300	300	1,150
Outlays	0	250	300	300	300	1,150
<b>Carter Budget</b>						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

Since its organization in 1976, Conrail has received \$3.3 billion in federal funds, mostly for capital improvements. Conrail will probably seek at least another \$2 billion from the government during the next five years to cover operating deficits and to make further capital improvements. Conrail is a consolidation of eight bankrupt northeastern railroads; it operates 17,000 miles of track, serves 15 states, carries 270 million tons of traffic a year, and hauls 4.5 million carloads annually. The system continues to lose money (\$178 million in 1979) and thus cannot generate the funds it needs to rehabilitate the system and finance new capital facilities.

If federal support for Conrail were gradually phased out, Conrail would have an opportunity to negotiate a sale of some of its routes, to abandon uneconomic secondary and branch lines (possibly more than one-third of the 17,000-mile system), to impose surcharges on light-density lines, to arrange for state or local subsidies in some instances, and to negotiate downward adjustments in current collective bargaining agreements. It is also possible that some capital improvements could be postponed.

The Congress could begin reducing Conrail's funding level in 1983 (by one-half) and eliminate it after that, resulting in savings of \$1.15 billion over the next five years. Conrail would thus have a short transition period in which to enact major changes in rail service in the northeast, but this should not mean the abandonment of basic rail service.

Critics of this proposal make several arguments. Operating efficiencies necessary for a reduction in costs may not materialize without additional track work and general physical upgrading. If these are not done, Conrail may be unable to attract additional traffic or even to maintain present levels of traffic, and will have to return to the Congress for assistance. Moreover, in the absence of federal support, many of the states, counties, and cities served by Conrail would have to provide higher subsidies themselves to assure continued service; and Conrail employees would face possible wage cuts and layoffs.

President Carter's fiscal year 1982 budget recommendations do not contain a specific proposal for Conrail funding. Instead, the issue is deferred pending the outcome of studies scheduled to be completed by April 1, 1981.

## PHASING OUT OF CONRAIL FUNDING

### GAO SUPPLEMENTARY DISCUSSION

GAO Views: The CBO analysis briefly recognizes the importance of labor costs and collective bargaining agreements in Conrail's cost and subsidy picture. GAO reported that Conrail must gain better control of its labor costs if it is to attain financial self-sufficiency. Conrail's labor costs as a percentage of revenue are considerably higher than most other railroads and Conrail's costs are affected by labor work rules that continue to be an industrywide problem. However, reductions in Conrail's size might be accompanied by increased payments to employees adversely affected by such reductions.

As indicated in CBO's analysis, several studies regarding Conrail's future are due in April 1981 and might contain recommendations that would reduce the need for Federal funds and still result in adequate rail service.

Relevant GAO Reports: CED-80-61

GAO Contact: J. R. Bolon, 426-1735

REDUCTION IN NEW SUBWAY COMMITMENTS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	290	910	1,120	1,230	1,310	4,860
Outlays	20	120	300	560	800	1,800
<b>Carter Budget</b>						
BA	400	970	1,140	1,210	1,230	4,950
Outlays	20	130	340	580	880	1,950

NOTE: Preliminary estimates, subject to change.

The Urban Mass Transportation Administration (UMTA) will have unfunded commitments of about \$200 million at the end of fiscal year 1981 for new subway systems under construction in Atlanta, Baltimore, Buffalo, and Miami, and for a downtown people-mover for Los Angeles. If these commitments are met, but no additional ones undertaken, the outlay and budget authority savings over the next five years will be about \$750 million and \$3.2 billion, respectively. These savings would represent a 6 percent cut in total UMTA obligations for 1982 and 11 percent for 1986. If, in addition, construction of Washington, D.C.'s subway system was halted at the 69 miles of track for which funds are now available, federal outlay savings would total \$1.0 billion through 1986. This would eliminate almost all new federal construction funds for the Washington subway after 1982.

The argument against starting new subway systems is based on doubts about their cost effectiveness. Typically, they save little, if any, energy; have only transitory effects on congestion and pollution; incur very large operating deficits; and, by themselves, have only a minor effect on land use. Funds spent on alternatives such as buses, exclusive lanes for high-occupancy vehicles, and coordinated traffic signals appear much more efficient.

A counterargument is that new subway systems are important, job-creating public works projects that enjoy considerable popularity. Most state and local governments would probably be unable to finance large new systems on their own.

President Carter's fiscal year 1982 budget recommendations propose a higher 1982 funding level for new subway commitments than assumed in the CBO baseline, but a somewhat lower level in the outyears. This accounts for the differences in savings estimates shown in the table.

## REDUCTION IN NEW SUBWAY COMMITMENTS

### GAO Supplementary Discussion

GAO Views: GAO has not done any work directly related to the merits of Federal funding for new subway systems beyond the Atlanta, Baltimore, Buffalo, and Miami systems that are already being funded. However, we have issued several reports which address some of the issues raised by the CBO analysis.

In a report on the People Mover Demonstration Projects GAO concluded that the relative benefits of downtown people-movers to other alternatives for downtown circulation need to be demonstrated and the need for multiple demonstration projects needs to be justified by UMTA. A number of reasons were cited by UMTA officials as to why multiple projects are necessary. In GAO's view, UMTA's arguments do not justify the potential \$675 million Federal investment in nine people mover demonstration projects. An UMTA official acknowledged that perhaps three to five projects would be enough to show fundamental differences. If only the three most expensive projects were built, the Federal share would be reduced by about \$322 million.

GAO issued a report recently which discussed efforts to increase commuter use of transit and ridesharing and presented matters for consideration by the Congress regarding mass transit expansion and Federal funding for ridesharing. GAO expressed concern that the decision to support transit expansion is being unduly influenced by the energy situation and the availability of windfall profits tax revenues and that not enough consideration has been given to potential adverse impacts of transit expansion on transit operating costs, deficits, and subsidies.

GAO concluded that although increasing transit capacity might produce significant percentage increases in the number of people who commute by transit, the impact of these ridership increases on energy, congestion, and pollution will be small because the existing base of transit commuters is small. Furthermore, increasing transit capacity involves considerable capital expenditures and under current industry labor practices could appreciably add to transit operating deficits.

GAO felt that Congress should support Federal funding of ridesharing activities because, among other matters, doubling ridesharing would save at least three times as much energy as a 50-percent increase in transit commuting and would have a greater impact on congestion and pollution.

Relevant GAO Reports: CED-80-98, CED-81-13

Contact: Ralph Domenick - 426-2125

REDUCED SPENDING ON HIGHWAYS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	1,200	1,300	1,500	1,600	1,800	7,400
Outlays	95	475	885	1,145	1,340	3,940
Carter Budget						
BA	1,240	1,290	1,330	1,360	1,390	6,610
Outlays	90	490	900	1,090	1,220	3,790

NOTE: Preliminary estimates, subject to change.

The federally aided highway system is composed of 42,500 miles of Interstate System roads and 824,000 miles of primary, secondary, and urban system roads. Although this federal highway system represents only 22 percent of the nation's total 3.9 million highway miles, it accounts for about 79 percent of vehicle miles traveled.

Of the approximately \$9.1 billion in budget authority for highways in fiscal year 1981, \$3.5 billion is allocated to the Interstate System; \$1.3 billion to the repair, rehabilitation, and replacement of unsafe bridges; \$3.2 billion to the primary, secondary, and urban system roads; and the remaining \$1.1 billion to a variety of programs.

If federal responsibility were limited to the Interstate System, the bridge program, and the primary, secondary, and urban systems roads, the 1982-1986 budget authority savings would be approximately \$7.4 billion with outlay savings of approximately \$3.9 billion over the five years. These savings could not, however, be obtained through the appropriations process. The federal-aid highway program is not subject to regular appropriations review because of its special status as a self-financed trust fund—known as the Highway Trust Fund. The spending authority for 1982 was provided in the Surface Transportation Assistance Act of 1978 (Public Law 96-599), which authorized the highway programs for fiscal years 1979 through 1982. Thus, any reduction in fiscal year 1982 would require a specific rescission, while reductions in

subsequent years could be accomplished by not reauthorizing the affected programs.

The effect of this cut would be to shift back to the states the full responsibility for a variety of highway programs, including pavement marking, removal of hazards, rail-highway crossings projects, and the 3-R program (resurfacing, restoration, and rehabilitation).

Federal aid could also be concentrated on important national routes by redefining completion of the Interstate System to include only those gaps needed for interstate commerce. While this would reduce the federal costs to complete the system from over \$50 billion (in 1979 dollars) to \$20-25 billion, it would also place greater responsibility on the states. No budget savings are likely from this proposal over the next five years, although it could produce important long-run savings.

Another approach would be to cut back the federal matching share except in the Interstate System program. Current matching rates are at historic highs. The non-Interstate match was 50 percent from 1916 to 1973, when it was raised to 70 percent. In 1978, it was changed to 75 percent, with the bridge program set at 80 percent. If the match was two-thirds in all non-Interstate categories, the savings would be about the same as those estimated under the CBO baseline for the first option.

One argument for such a change is that the Highway Trust Fund is currently disbursing more funds than it takes in, and with declining gasoline consumption this condition is likely to persist unless state claims on the fund are cut back. The states can, of course, increase their own highway user fees in order to replace any lost federal funding.

Opponents of such a proposal argue that all the nation's roads contribute to national commerce, that the federal government should protect its already large investment in the highway system, and, finally, that the federal government is best able to raise revenue and fund the highway system in a uniform and comprehensive manner. They point out that the present federal excise tax on motor fuels of four cents a gallon has not been increased since 1959. Each additional one cent in fuel taxes applied nationwide would raise almost \$1 billion in revenues. Therefore, an excise tax increase of 1.5 cents would finance continuation of the current programs. Other fees (truck, bus, and trailer taxes, and tire and rubber

taxes) could be allocated among users according to their proportionate share of highway costs.

President Carter's budget recommendations for fiscal year 1982 assume a slightly higher program level than that in the CBO baseline, but the President's budget also assumes that the program will grow more slowly than does CBO in later years. Thus, the savings shown above appear slightly larger under the Carter budget relative to the CBO baseline in early years, and substantially smaller in later years.

## REDUCED SPENDING ON HIGHWAYS

### GAO SUPPLEMENTARY DISCUSSION

GAO Views: We have issued no reports relating directly to limiting highway aid to specific programs and the related ramification of such limitations. A report expected to be issued in late February concludes that a Congressional reassessment of the entire Federal-aid highway program is needed. Our draft report shows that the Nation's highways are deteriorating, and that the decline is most critical on the Interstates. Billions of dollars will be required to solve the problem and if timely action is not taken the cost will be much greater. To complete the Interstate Highway System as currently defined and continue other highway programs will cost additional billions. This task will be complicated by escalating construction and maintenance costs and lagging State and Federal revenue growth. During the Congress' reassessment, specific consideration should be given to priority needs and funding levels. The Congress will need to decide which Federal-aid highway categorical programs should be retained, modified, deleted, or added; the respective funding levels; the method used to acquire necessary funds; and the State's responsibilities including matching ratios.

CBO suggests savings could be achieved by limiting Federal responsibility to the Interstate System, the bridge program and the primary, secondary and urban roads. In addition, the definition for completing the Interstate System could be changed to include only those gaps needed for interstate commerce. The CBO suggestion would eliminate the interstate 3R program (resurfacing, restoration and rehabilitation) from receiving Federal aid and might eliminate such funding for primary, secondary and urban roads, although this latter point was not clear in the CBO suggestion.

We believe that priority should be given to preserving existing highways, especially on the Interstate System, in order to protect the billions of Federal dollars already invested in this system. The precise method used to protect this investment is a matter for the Congress to decide. We agree that consideration should be given to redefining what completion of the Interstate System means and believe that priority funding for completing essential interstate gaps should be considered.

The primary source of highway financing--the fixed cents-per-gallon motor fuel tax--is obsolete and should be changed to be more responsive to highway needs and the inflationary trends in highway costs. This 4-cents-per gallon tax has not changed in over 20 years when it was 13 percent of the wholesale price of gasoline. It is now about 3 percent and dropping. Some States have adopted more flexible motor fuel taxes to keep up with funding needs. The Federal Government may wish to take similar action. Whatever funding mechanism Congress adopts, however, should remain a user tax. That is, motorists should pay for the highways they use; a fuel tax is a convenient user tax. Increasing fuel taxes would serve the additional purpose of dampening demand for petroleum.

State and local government efforts and capabilities to fund highway programs should also be considered. It makes little difference to motorists whether they are paying a State or Federal tax, and the Federal Government should limit its collection and funding to those projects that are clearly related to national priorities and objectives.

Relevant GAO Reports: CED-81-42 and CED-79-94

GAO Contact: J. Kevin Donohue, 426-1777

REPEAL OF DAVIS-BACON REQUIREMENTS

	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<hr/>						
CBO Baseline						
BA	130	155	172	199	215	871
Outlays	124	140	149	170	193	776
Carter Budget						
BA	160	179	194	210	228	971
Outlays	125	147	168	180	199	819

NOTE: Preliminary estimates, subject to change.

The 1931 Davis-Bacon Act and 77 related federal statutes require that wages paid on most federal and federally assisted construction projects equal the prevailing wage in the local area of a project. Where there is no majority of workers paid at an identical rate, the wage scale paid to at least 30 percent of local workers is used. The practical effect, particularly in urban areas, is that workers on federal projects receive the union scale, instead of an average locality rate. In 1979, the value of new construction put in place totaled almost \$230 billion. Nearly 13 percent of that amount (\$29 billion) was federally assisted construction, and hence potentially covered by Davis-Bacon. Of the \$29 billion, approximately one-third was paid in wages.

Repeal of Davis-Bacon might result in cumulative outlay savings of \$776 million by 1986 in just the three largest federal construction programs: military construction, Environmental Protection Agency construction grants, and ground transportation construction. An alternative to outright repeal would be to raise the dollar volume threshold required to activate the coverage from the current level of \$2,000 set by the original act. The raised threshold could be indexed to some measure of construction costs, such as the Department of Commerce's Composite Cost Index, to ensure that inflation did not erode its impact. To result in significant savings, however, the new threshold would have to be raised considerably since contracts of less than even \$100,000 account for only a small fraction of federal construction outlays.

The estimated cost of the Davis-Bacon requirement, as given above, is based on recent studies by the General Accounting Office and the Council on Wage and Price Stability. Those studies have been criticized for using limited data and failing to adjust for asserted productivity differences between high- and low-paid workers. To the extent that higher-paid workers are more productive, higher wages need not translate directly into higher costs, thus reducing the potential for federal savings.

Defenders of Davis-Bacon argue that it saves the government money by excluding unqualified contractors and by preventing labor relations problems at construction sites. They also contend that the law's requirements add stability to the construction industry, thereby making it less difficult to recruit, train, and maintain skilled labor. While there are probably some offsetting costs of this kind, their magnitude cannot be calculated.

President Carter's budget recommendations for fiscal year 1982 assume slightly different construction program levels from those in the CBO baseline, thus accounting for the difference in projected savings.

REPEAL OF DAVIS-BACON WAGE REQUIREMENTS

GAO SUPPLEMENTARY DISCUSSION

GAO Views. We strongly agree with, and support, CBO's comments that repeal of the Davis-Bacon Act and removal of its wage determination requirements would result in substantial savings on Federal or federally financed construction costs.

As stated in our report to the Congress in April 1979, we believe that the Congress should repeal the Davis-Bacon Act because (1) significant changes in economic conditions, and the economic character of the construction industry since 1931, plus the passage of other wage laws, make the act unnecessary, (2) after nearly 50 years, the Department of Labor has not developed an effective program to issue and maintain current and accurate wage determinations; it may be impractical to ever do so, and (3) the act results in unnecessary construction costs of between \$200 to \$500 hundred million annually and has an inflationary effect on the areas covered by inaccurate wage rates and the economy as a whole.

In addition, the Davis-Bacon Act, along with the weekly payroll reporting requirement of the Copeland Anti-Kickback Act also result in substantial unnecessary administrative costs (between \$100 to \$200 million annually) for contractors--which are ultimately passed on to the Government--and for agencies to administer and enforce the act's requirements.

More recently, we made a review of one of the largest Federal construction projects which would benefit from repeal of the Davis-Bacon Act--the Washington Regional Rapid Transit System (METRO). The latest estimate for a completed rail system by the late 1980's is \$8.2 billion. In a report issued in October 1980, we found that setting prevailing wages for METRO construction--as required by the Davis-Bacon Act--may increase the construction costs by about 6.8 percent. We estimate, that as a result of Labor establishing wages at higher rates than those actually prevailing in the area of METRO projects, future METRO construction costs could be increased by about \$149 million.

Critics of our report and recommendation, such as OMB and the Secretary of Labor, contend that the Davis-Bacon Act is still needed to protect the construction workers and that the problems in implementing the act could be resolved through administrative action including, where appropriate, modification of Labor's regulations.

We disagree. The Davis-Bacon Act covers less than one-fourth of the estimated 4 million construction workers. The fact that the remaining 3 million workers who work on projects not covered by the act are among the best paid workers in the country indicates to us that construction workers do not need the "special protection" the critics deem essential.

Also, in our opinion, the problems and inadequacies we have identified--over almost 20 years of reviews--cannot be corrected or improved significantly by any administrative action, modifying regulations or applying additional resources to the program. Obstacles, inadequacies and problems continue to hamper Labor's attempts to develop and issue accurate wage rates based on prevailing rates in localities. In our view, the act is impractical to administer--it cannot be effectively and efficiently administered.

Further, improving the administration of the Davis-Bacon Act prevailing wage determinations may slightly lessen or dampen, but not eliminate, the act's inflationary effect. Only the repeal of the act would return the determination of labor costs on federally funded or assisted construction projects to the forces of the competitive marketplace and eliminate the act's inherent inflationary effect.

Defenders of the act also argue that it increases worker productivity and prevents awards to incompetent contractors. On the basis of studies we have reviewed conclusive evidence does not exist that the act results in greater productivity. Contract awards to incompetent contractors is a procurement and contractor issue, and has little to do with Labor's administration of the act. The Federal Government and its contracting agencies must follow well-established and longstanding procurement rules and regulations to assure that contracts are awarded to responsive and responsible bidders.

In conclusion, we believe that the concept of issuing prevailing wages as stated in the Davis-Bacon Act is fundamentally unsound. We do not believe the act can be effectively, efficiently, and equitably administered. The act should be repealed.

Finally, an increasing number of congressional members are advocating repeal of the act. This is evidenced by a House bill introduced in the 96th Congress for repeal which had about 75 cosponsors. Moreover, bills have also been introduced in the 97th Congress recommending repeal. Others seeking repeal, in addition to GAO, include, the Association of General Contractors, Associated Builders and Contractors, Inc., the American Farm Bureau Federation; many leading economists, such as Arthur Burns; many contractors, and a number of State legislators. They believe, as GAO does that the law has outlived its usefulness, is inflationary, is impossible to administer and should be repealed.

Relevant GAO Reports.

HRD-79-18, April 27, 1979  
HRD-81-10, October 2, 1980

Contact: Raymond J. Kowalski, 523-8706

SHIFTING CERTAIN AIRWAYS COSTS

The federal government spent about \$3.1 billion in fiscal year 1980 for capital and operating expenses of the nation's air traffic system. General aviation (mainly, planes owned by firms and individuals for their own business and personal use) accounted for an estimated \$740 million of the total but paid only \$80 million in the form of user charges, primarily through a 7 cents per gallon tax on aviation fuel. On the other hand, commercial airline travelers, through ticket taxes and other fees, paid about 90 percent of the costs attributable to them, and under current projections will be paying approximately 100 percent, or possibly more, by 1982.

Increasing User Fees. If general aviation user fees were increased in line with their associated costs, about \$5 billion would be generated over the next five years. The taxes paid by private plane owners would increase 600 percent, although their overall operating costs would increase by less than 15 percent. The rest of the nation's taxpayers would continue to subsidize the one-quarter of expenditures that represent costs not attributable to any one class of air traveler.

	Annual Added Revenue (millions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
CBO Baseline	800	900	1,000	1,100	1,200	5,000
Carter Budget	510	490	480	470	450	2,400

NOTE: Preliminary estimates, subject to change.

An argument for this proposal is that having users of the airway system pay their own way would encourage more efficient use of airports and airways, and would be more fair as well. An argument against it is that greatly increased taxes might disrupt the general aviation industry, though transition effects could be cushioned by using the approximately \$3 billion surplus in the Airport and Airways Trust Fund to introduce increased user charges gradually.

President Carter's 1982 budget recommendations for fiscal year 1982 propose user charges for general aviation that by 1982 would recover about 50 percent of their associated costs, instead of 100 percent as in the proposal described above, thus accounting for the revenue differences shown in the table.

Ending Grants-in-Aid. The Congress might also consider ending grants-in-aid for capital improvements at large and medium hub airports. This action is suggested because such airports are already close to financial self-sufficiency, and the federal grants are now so thinly spread that their replacement by local user charges should be possible. If grants to large airports were eliminated, the five-year savings would be about \$1.1 billion, as shown in the following table.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	260	300	330	360	390	1,640
Outlays	50	180	250	300	350	1,130
<b>Carter Budget</b>						
BA	250	260	280	300	320	1,410
Outlays	50	170	230	260	290	1,000

NOTE: Preliminary estimates, subject to change.

The reduction in grant support for large and medium hub airports was passed by the Senate in 1980, but the 96th Congress did not complete action on Airport and Airways Trust Fund reauthorizations. The savings estimates given above assume that it will do so in 1981. President Carter's 1982 budget recommendations assume slightly lower program levels for the airport grant program than those in the CBO baseline, accounting for the somewhat different savings estimates shown.

Shifting Certain Airways Costs

GAO Supplementary Discussion

GAO Views. GAO believes that changes in airport and airways user charges might be desirable. It is equitable for both general aviation and commercial users to finance the provision of facilities and services that specifically benefit them. Charges should be changed to the extent that such benefits are presently financed from tax revenues.

Use of existing facilities and services could be made more efficient and equitable by adoption of charges that are directly linked to use. Landing fees are an example of such user related charges. Also, congestion charges could be employed when the demand for certain facilities and services exceeds capacity. The legality of congestion charges must be carefully scrutinized before they are implemented, since they do not reflect costs actually borne by the government. A tax set by the Congress, rather than a fee set by the FAA, may be legally necessary. To the extent that user related charges collect sufficient revenues to cover costs, they could replace present taxes on tickets, aircraft fuel, parts, etc.

It is possible, as CBO notes, that increased charges could disrupt the general aviation industry. GAO agrees with CBO's suggestion that such disruption should be minimized. However, GAO also believes that the mere prospect of disruption is not a sufficient reason for maintaining the status quo. Some mitigation of losses suffered by those adversely affected by a change to increased charges may or may not be warranted. This issue deserves careful analysis and consideration.

Relevant GAO Report. PAD-80-25.

Contact. Craig Simmons, 275-3588.

## SHIFTING CERTAIN AIRWAYS COSTS

### GAO SUPPLEMENTARY DISCUSSION

GAO Views: The elimination of large and medium hub airports from the airport and airway development grant program is consistent with GAO's past recommendation that Congress establish priorities and use them to distribute airport development grants, considering among other things the financial resources of airports. The large and medium hub airports that would have been defederalized under Senate bill 1648 were entitled to over \$150 million in Federal grants for fiscal year 1979 thus the defederalization of these airports would result in considerable savings.

According to an FAA August 1977 report on "Airport Land Banking," airports could be expected to break even on operating expenses when annual passenger enplanements reached 97,000. When annual passenger enplanements reached 275,000 airports were generally able to meet their debt service requirements from operations without local contributions, head taxes, or other extraordinary income. The large and medium hub airports that would have been defederalized under Senate bill 1648 had annual passenger enplanements in 1978 ranging from a low of 700,000 to a high of about 22 million; thus they should be self-sufficient without Federal assistance.

One rationale presented for defederalizing the large and medium hub airports covered by Senate bill 1648, is that these airports receive a lot less in grant funds than the funds they contribute to the Airport and Airway Trust Fund through the 8 percent passenger ticket tax. Thus a reduction in the ticket tax from 8 percent to 2 percent as provided in the companion bill (S. 1649) to Senate bill 1648 should result in substantially less revenues. This loss in revenues could more than offset any savings realized through the defederalization of large and medium airports. Further, savings would also be reduced by the increased funding levels proposed in Senate bill 1648.

Relevant GAO Reports: CED-79-17

GAO Contact: Thomas D. Reese, 426-8462

USER CHARGES FOR CERTAIN COAST GUARD ACTIVITIES

	Annual Added Revenues (millions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
CBO Baseline	680	730	780	830	880	3,900
Carter Budget	710	760	800	830	870	3,970

NOTE: Preliminary estimates, subject to change.

Over the next five years, the Coast Guard will spend about \$1.5 billion on short-range aids to navigation and \$2.4 billion on search-and-rescue activities. The cost of both of these programs could be recovered through user charges.

Without short-range navigational aids--such as buoys and other channel markings--commercial shipping in U.S. inland and coastal waters would be substantially more hazardous, difficult, and costly. The capital and operating costs of these aids could be recovered from the shipping industry, just as highway users pay for the cost of highways. The potential five-year savings for the general taxpayer from such user charges total about \$1.5 billion, or about 11 cents per ton of domestic and foreign cargo.

The Coast Guard also engages in search-and-rescue operations for private mariners who are lost or otherwise in trouble. About 70 percent of such missions involve recreational boaters. With almost 9 million large recreational boats registered by the states, an annual registration fee of about \$30 would recover the search-and-rescue costs attributable to recreational boaters. The potential five-year savings for the general taxpayer total about \$2.4 billion.

The argument for charging the shipping industry for navigational aids is that efficiency is enhanced when users of various modes of transportation pay the costs of each mode. The argument for charging recreational boaters is simply that the beneficiaries of this special service, who by and large have higher than average incomes, ought to bear the cost.

An argument against imposing such user charges is the difficulty of establishing fair cost allocations among the various kinds

of users. The charges might also cause some slight reduction in domestic shipping, and possibly temporary reductions in the sales and use of recreational boats.

President Carter's budget recommendations for fiscal year 1982 did not include this item. The revenues shown above for the Carter budget are in fact the spending levels he has recommended for navigational aids and search-and-rescue activities, and thus the amount that would be saved if the costs of these programs were covered by user charges.

## USER CHARGES FOR COAST GUARD ACTIVITIES

### GAO Supplementary Discussion

GAO Views: In an April 1980 report, GAO recognizes that funds would be available to the Treasury if the Coast Guard were to charge the users of the services provided. The Coast Guard has constituted a task force to examine the fee schedule issue. In addition, the Coast Guard appropriations bill for fiscal year 1981 (P.L. 96-376) requires the Coast Guard to recover extraordinary expense (travel, lodging and subsistence) for inspecting U.S. vessels in foreign ports.

Our report also recognizes certain disadvantages or difficulties in implementating a user charge system:

--Mariners requiring assistance at sea may hesitate to contact the Coast Guard if they know they are to be charged for services performed. As a result, mariner safety may be jeopardized.

--The users of some Coast Guard services--radio navigation services, aids to navigation, law enforcement, etc.--may be difficult to identify and it may be difficult to establish equitable charges for some services.

--Costs to implement and administer a user charge system (billing and collection, rate revisions, etc.) could be costly. Also, collection of charges may be a protracted and difficult task.

We have no comments on the cost estimates.

Relevant GAO Reports: CED-80-76, 4/3/80

GAO Contact: Dave Jones (755-9100)

## User Charges for Certain Coast Guard Activities

### GAO Supplementary Discussion

GAO Views. GAO agrees with CBO's arguments for charging fees for Coast Guard navigational and rescue services.

One problem associated with implementing the new charge is establishing fair cost allocations among the various kinds of users. Financing navigational aids might be most equitably accomplished by a fuel tax, on the premise that use of these aids is directly associated with fuel use. If this premise is incorrect, some similar equitable financing mechanism might be devised.

Financing rescue operations would be more equitable (and efficient) if those who are actually rescued bear a higher proportion of the costs. This would make the program's financing analogous to insurance with a deductible provision. Imposing a surcharge on those rescued would not only allocate more costs to those who actually benefit from the program, but would also create an incentive for boaters to be safety conscious. This could result in fewer rescues being needed.

The possible disruptive impacts of the proposed charges on the shipping and boating industries must be recognized. There may be cases where some compensation would be warranted. Who would ultimately bear the burden of the proposed charges, and their ability to do so is not immediately obvious. Careful analysis is needed to make these determinations.

Relevant GAO Report. PAD-80-25.

Contact. Craig Simmons, 275-3588.

USER CHARGES FOR DEEP-DRAFT NAVIGATION

	Annual Added Revenues (millions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
CBO Baseline	540	600	650	710	770	3,270
Carter Budget	590	730	810	820	850	3,800

NOTE: Preliminary estimates, subject to change.

The Army Corps of Engineers and the Coast Guard spend about \$560 million a year improving and maintaining ports and channels to accommodate oceangoing vessels and Great Lakes shipping. Full recovery of these costs from users would total about \$3.3 billion between 1982 and 1986.

Except for the military, all deep-draft vessels are engaged in for-profit shipping. If the federal government recovered all deep-draft expenditures from international shipping alone, shipping costs would increase by only about 30 cents a ton, or less than 0.2 percent. Such a level seems unlikely to harm the general economy or divert significant traffic to other ports or transportation modes.

Several different taxing mechanisms are available to recover costs. The most common approach used in other countries is a harbor and channel use fee, under which a charge is assessed each time a ship uses a particular channel or harbor. Another possibility is a fuel tax, but in international shipping it can easily be avoided. Costs could also be recovered through taxes based on the value, volume, or weight of the cargo. The U.S. Customs Service already collects a small tonnage tax on international shipping. Receipts from this tax, which go into the general fund, totaled \$14 million in 1980, an effective rate of about one cent a ton. Further study would be required to evaluate the effectiveness of these alternatives and to determine the proper allocation of costs among various classes of users and among different types of facilities.

One argument in favor of this option is that the Congress has broadly applied the user charge principle to other modes of transportation, including highways, airports, and to some extent inland shipping.

Arguments against this proposal include the administrative difficulty of allocating the relevant expenditures by the Corps of Engineers and the Coast Guard, and the possibility of some small reductions in international trade and coastal trade.

President Carter's fiscal year 1982 budget recommendations assume a slightly different program level for improving and maintaining deep-draft ports and channels from that assumed in the CBO baseline, thus accounting for the small savings differences shown in the table.

USER CHARGES FOR  
DEEP-DRAFT NAVIGATION

GAO Supplementary Discussion

GAO Views. GAO determined that America's seaports have successfully coped with dramatic changes in maritime transportation and cargo-handling techniques in recent years. In doing so, however, the ports have incurred large, long-term debts, and many of them anticipate additional capital expenditures to accommodate trade increases.

The Congress must determine what the Federal Government's role should be, if any, in port development. GAO did not make any recommendations but did discuss the pros and cons of the following options.

- Continuance of the existing Federal role.
- A national plan for port development, including Federal underwriting of capital investments and Federal subsidies of operating deficits.
- A national plan for port development, financed by a special tax on port users, patterned after the airport development program.
- Federal underwriting of ports' financial needs by guaranteeing loans.
- Federal financing of federally mandated costs.

Key issues in evaluating these options are (1) the degree to which Federal assistance should reinforce or resist the economic forces which are tending to concentrate business in a relatively few large ports and (2) who should pay for special port development programs.

GAO does not have the information to verify whether CBO's projection of potential savings is accurate.

Relevant GAO Reports: CED-80-8, November 16, 1979.

Contact: Andrew Pasden, 376-8200

REDUCED FUNDING FOR URBAN DEVELOPMENT ACTION GRANTS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	135	135	150	165	180	765
Outlays	15	50	120	140	155	480
<b>Carter Budget</b>						
BA	135	135	135	135	135	675
Outlays	15	50	115	135	135	450

NOTE: Preliminary estimates, subject to change.

The Urban Development Action Grant (UDAG) program was established in 1977 to help severely distressed communities finance part of the costs of private commercial, industrial, and housing development projects. The Congress extended UDAG eligibility in 1979 to the deteriorated areas of otherwise healthy cities ("pockets of poverty"), and in 1980 the program was reauthorized through fiscal year 1983 at an annual level of \$675 million.

UDAG funds are intended to generate additional private employment and tax revenues. Through October 1980, 937 grants totaling \$1.7 billion were provided to 562 cities and counties. Over half the funds supported commercial projects, mostly in retail and wholesale trade.

If UDAG appropriations were cut 20 percent, the savings would total \$480 million over the five years from 1982 to 1986. One way to make such a reduction without affecting the most distressed cities would be to eliminate the "pockets of poverty" provision and otherwise to narrow grant eligibility standards. If this course were taken, the impact would be greatest in the South and Southwest, where there are fewer jurisdictions in the upper ranks of the Department of Housing and Urban Development (HUD) distress ratings.

Some of the cities losing UDAG eligibility would still be able to fund economic development projects with their own revenues or perhaps from Community Development Block Grant funds. But

some projects would probably be delayed or dropped entirely, resulting in postponement or loss of prospective jobs, housing units, and local tax receipts.

President Carter's budget recommendations assume that UDAG will receive \$675 million a year through 1986. CBO's baseline projection assumes that the program will be funded at a higher level when reauthorized for the years from 1984 to 1986, thus accounting for the differences in the savings shown above.

Reduced Funding For  
Urban Development Action Grants

GAO Supplementary Discussion

GAC Views. CBO proposed eliminating the "pockets of poverty" program and cutting back the total program by 20 percent, resulting in savings of \$480 million from 1982 to 1986.

GAO believes the potential savings in the Urban Development Action Grants (UDAG) program could be greater if the cuts were made as outlined below. As indicated in testimony before the Congress on May 23, 1979, we found several problems with selected UDAG's. We did not testify on the "pockets of poverty" program because it was enacted later; however, we believe the program should not be eliminated without a trial period. It is new, untested, and could prove worthwhile.

Our alternatives to CBO's proposed cuts follow. Alternative 1 would yield savings of \$1.93 billion in budgetary authority by 1986; and Alternative 2 would yield \$777 million in savings in budget outlays by 1986. Note that we include 1980 in our projections because the budget authority increased 69 percent between 1979 and 1980. Our projections would, in effect, maintain 1979 funding levels.

Alternative 1

Between FY 79 and FY 80, the budget authority for the UDAG program was increased by \$275 million (from \$400 to \$675 million per year). If this 69 percent increase were rescinded, the following savings in budget authority would be realized.

	----- Fiscal Years -----						
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
Incremental savings	\$275	\$275	\$275	\$275	\$275	\$275	\$275
Cumulative savings	\$275	\$550	\$825	\$1,100	\$1,375	\$1,650	\$1,925

Alternative 2

Alternatively, a 20 percent reduction in total program budget outlays would result in the following savings.

	----- Fiscal Years -----						
	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
	Actual	Est.	Est.	Est.	Est.	Est.	Est.
Budget outlays	\$225	\$365	\$610	\$660	\$675	\$675	\$675
20 Percent incremental savings	\$ 45	\$ 73	\$122	\$132	\$135	\$135	\$135
Cumulative savings	\$ 45	\$118	\$240	\$372	\$507	\$642	\$777

(Assumes budget outlays equal budget authority for FY 84, FY 85, and FY 86, and budget authority in FY 84, FY 85, and FY 86 is the same as for FY 83, which equals \$675 million.)

Both Alternatives 1 and 2 above would result in greater cumulative savings in budget authority and budget outlays, and would be applied to the entire UDAG program, not only to the new "pockets of poverty" set-aside funding.

Relevant GAO Report. PAD-79-85.

Contact. Dennis Dugan, 275-6501.

ELIMINATION OF ENERGY IMPACT ASSISTANCE

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	46	51	56	61	67	281
Outlays	3	25	38	50	58	174
<b>Carter Budget</b>						
BA	50	50	50	50	50	250
Outlays	31	50	50	50	50	231

NOTE: Preliminary estimates, subject to change.

In 1978, the Congress authorized a five-year grant program to help states and localities develop plans to deal with the problems created by sudden increases in coal- and uranium-related energy development. Localities apply for grants through their state governments to the Farmers Home Administration. Grants are issued, on a need basis, to cover the cost of developing plans to cope with anticipated energy-related growth. Appropriations for the planning grant program totaled \$20 million in fiscal year 1979, \$42 million in fiscal year 1980, and \$62 million in fiscal year 1981. Elimination of the planning assistance program in 1982 would result in savings of about \$174 million in the 1982-1986 period.

Proponents of the Energy Impact Assistance program argue that the bulk of new energy development will occur in rural areas that lack the necessary planning capacity, governmental infrastructure, and tax base to cope with the rapid increases in population associated with new energy development. They argue that, since the country as a whole benefits from additional energy production, the federal government should provide some assistance so that the affected communities can develop plans for coping with the problems associated with rapid energy-related development.

Opponents of the federal Energy Impact Assistance program argue that these problems should be resolved at the state and local level. While there may be an initial mismatch between the expenditure needs of affected governments and the tax receipts generated by the energy-related development, state and local tax revenues

over the long run should be more than adequate to offset the public expenditures associated with the projects. Whatever mismatch arises can be overcome through traditional means, such as the issuance of bonds. If the federal government does play a role, there is no reason why the program should take the form of grants as opposed to loans.

President Carter's budget recommendations for fiscal year 1982 assume a slightly different funding level for this program from that assumed in the CBO baseline. This accounts for the differences in savings shown above.

## ELIMINATION OF ENERGY IMPACT ASSISTANCE

### GAO Supplementary Discussion

GAO VIEWS. GAO has reported and testified on energy impact assistance a number of times. Further, we are currently involved in a review which is examining the present Federal Energy Impact Assistance programs including those administered by the Farmers Home Administration.

Our work supports the CBO view, that there may be an initial mismatch between the expenditure needs of affected State and local Governments and the tax receipts generated by the energy-related development, but that, in the long-term, revenues to the State and local Governments may be adequate. In addition, we have taken the position that, in most instances, loans would be more appropriate than grants. However, grants may be necessary in some instances to fund the planning efforts necessary to anticipate the impact of energy development. We have also taken the position the State and local Governments should be primarily responsible for providing the facilities and services needed for energy development. We do not believe, however, that energy impact assistance should be reduced or eliminated without thorough analysis of existing federal, state, local, and private industry assistance consideration.

RELEVANT GAO REPORTS: EMD-77-23

CONTACT: Flora Milans, 353-3408

INCREASED INTEREST RATES ON DISASTER LOANS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	75	225	375	500	625	1,800
Outlays	75	225	375	500	625	1,800
<b>Carter Budget</b>						
BA	25	75	150	200	250	700
Outlays	25	75	150	200	250	700

NOTE: Preliminary estimates, subject to change.

In fiscal year 1980, the Farmers Home Administration and the Small Business Administration made about \$3 billion in loans to firms and farmers located in designated disaster areas. Borrowers without access to private sources of credit receive subsidized loans at 5 percent, while others receive loans at an interest rate tied to the average rate paid on outstanding federal obligations of comparative terms and maturities. Although these latter loans are characterized as "unsubsidized," the interest rate charged is currently below both the prevailing rates on private loans and the current interest rates on long-term federal borrowing at the time the loans are made. (The latter subsidy, however, would be much lower if interest rates were to decline from their recent high levels.) About 55 percent of the 1980 loans were at 5 percent, and the remainder were tied to the Treasury borrowing rate.

Tying interest rates on all loans to the Treasury borrowing rate could save \$625 million annually by fiscal year 1986, assuming that disasters continue to occur about as they have in recent years.

The argument for the change is that eligibility for the subsidized interest rate does not depend on demonstrated need, but rather on inability to obtain credit from private lenders. As a result, borrowers who would be able to afford insurance against disasters receive large benefits from these loans. According to a recent General Accounting Office report, generous disaster loan programs may destroy the incentive to purchase insurance against loss, and also may deter relocation to less hazardous areas.

An argument against change is that to raise disaster loan interest rates would place added burdens on borrowers who may find it particularly difficult to purchase adequate insurance without federal subsidies.

President Carter's fiscal year 1982 budget recommendations assume a lower future incidence of disasters than does the CBO baseline, and make no allowance for inflation in the cost of those disasters, thus accounting for the savings differences shown in the table.

## Increased Interest Rates on Disaster Loans

### GAO Supplementary Discussion

GAO Views. We concur with the CBO recommendation. However, the ultimate savings to the Government may be overstated. The reported figures fail to consider the interactions of the tax system on disaster victims and their tax liabilities. Because interest expenses are tax deductible and since the interest deducted would increase, Federal tax revenues would fall. Thus, total Government savings would not be as large as that implied by the proposed interest rate increase. A fair estimate of the lost federal income would be about 25 percent of the CBO estimated savings each year. (The 25 percent figure is appropriate because it is roughly the average tax rate.)

We believe a more fundamental change is needed in Federal disaster policy, as discussed in our report. Our report provides a normative policy analysis of what the Federal Government's role should be in providing disaster assistance to victims of natural disasters. In the report we discuss the overlap between farm disaster payments and crop insurance, and the disincentive that crop disaster payments create for crop insurance purchases. Disaster payments are in effect free insurance. The report concludes that providing disaster assistance through expanded crop insurance is a more efficient and equitable mechanism for assisting victims of crop failures due to natural hazards.

It is not clear that such a change will result in savings to the Government. An increase in the interest rate on disaster loans could be a first step in this direction, however, because it would reduce the desirability of loans relative to insurance.

Relevant GAO Report. PAD-80-39.

Contact. Craig Simmons, 275-3588.

REDUCED FUNDING FOR EMERGENCY SCHOOL AID

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	52	58	64	71	78	323
Outlays	5	53	59	65	72	254
Carter Budget						
BA	41	40	34	25	14	154
Outlays	5	36	34	26	20	121

NOTE: Preliminary estimates, subject to change.

The 1972 Emergency School Aid Act (ESAA) authorized basic grants to school districts undergoing desegregation to assist them in such activities as staff training, community relations, and the provision of guidance counselors. In general, the funds may not be used for busing or remedial education programs. Actual ESAA basic grant appropriations have declined from \$134 million in 1973 to \$108 million in fiscal year 1981. An estimated 330 school districts will receive ESAA funds in 1981. About 60 percent will have been receiving such support for at least six years.

If program eligibility was limited to six years, and the funds so saved not reapportioned, the five-year savings would be about \$254 million. Savings in the first year would be modest because the program is advance-funded. Most southern states would lose funding under this change, as well as certain districts with histories of desegregation problems, such as Boston and Detroit.

The argument for such a change is that six years is long enough to be classified as an "emergency," and that expenses associated with desegregation should by that time be incorporated in a school district's regular operating budget. Opponents of the proposal argue that such a strategy is flawed because desegregation difficulties persist for more than six years.

President Carter's budget recommendations for fiscal year 1982 assume a lower funding level for this program than that in the CBO baseline; thus, the savings relative to the Carter budget are lower.

Reduced Funding for Emergency School Aid  
GAO Supplementary Discussion

GAO Views - The GAO issued a report on the Emergency School Aid Act (ESSA) on January 20, 1978. The GAO's primary concern was that program funds had been used for general education rather than desegregation assistance because the administration allowed funding for (1) past desegregation efforts, (2) schools not affected by desegregation plans, and (3) activities not directly related to implementing the plans.

The report contained recommendations to the Congress and the Secretary of HEW. Almost all of them have been or are being implemented. Specifically, the Congress, in the Education Amendments of 1978, amended the act in accordance with the GAO's recommendations to (1) include recentness of desegregation efforts as a basis for awarding grant funds, (2) clarify a basis for eligibility for funds under the "intergrated schools" provision, and (3) limit the amount of funds under the statewide competition. HEW has provided guidance to Office for Civil Rights officials and ESAA program officers about eligibility of desegregation plans and funding only those schools affected by, and only those activities that are related to implementing, the plans.

In final year 1980, the Congress reduced the President's initial budget request by \$18.8 million and rescinded an additional \$11 million from the general grants program.

Relevant GAO Report - HRD 78-36

Contact - William Hightower, 389-5281

PHASING OUT OF CETA TITLE VI

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	1,030	1,180	1,250	1,320	1,360	6,140
Outlays	980	1,170	1,240	1,310	1,350	6,050
Carter Budget						
BA	1,060	1,230	1,330	1,440	1,550	6,610
Outlays	980	1,180	1,280	1,380	1,490	6,310

NOTE: Preliminary estimates, subject to change.

The Comprehensive Employment and Training Act (CETA) authorizes public service employment (PSE) in Titles II-D and VI: Title II-D is intended to address structural employment problems; Title VI, cyclical employment problems. Actually, however, the two programs operate quite similarly and, since 1978, both have been more heavily targeted on disadvantaged groups. The continuing resolution for fiscal year 1981 provides funding for approximately 215,000 Title II-D jobs and 100,000 Title VI jobs. Compared with actual fiscal year 1980 job levels, this represents an 8 percent increase for Title II-D and a 46 percent decrease for Title VI.

Cutting the number of Title VI jobs funded by 15 percent a month (starting in April 1981), and phasing the program out entirely by the end of fiscal year 1982, would save about \$150 million in fiscal year 1981 and \$6.1 billion during the following five years, compared with maintaining the program at the planned 1981 level. The net effect would be less, however, because increases in other federal expenditures and decreases in revenues could reduce overall federal savings to approximately \$4.6 billion over the next five years.

Proponents of reduced Title VI funding argue that the program is not an effective countercyclical strategy and, in fact, may be partially substituting for state and local expenditures. To make Title VI more countercyclical--that is, more effectively serving the recently unemployed--would require major legislative changes and might worsen the problem of "fiscal substitution."

INCENTIVES TO STATES FOR HOSPITAL COST CONTAINMENT

Savings from	Annual Savings (millions of dollars)				Cumulative Five-Year Savings	
	1982	1983	1984	1985		1986
CBO Baseline and Carter Budget						
BA	0	50	100	200	350	700
Outlays	0	100	400	800	1,100	2,400

NOTE: Preliminary estimates, subject to change.

Hospital costs have been rising rapidly for some time, averaging 15 percent a year from 1968 to 1979. These increases have contributed to the substantial growth in federal outlays for Medicare and Medicaid. The Carter Administration twice proposed to the Congress federal limits on increases in hospital revenues per admission, but neither proposal passed.

About eight states currently set maximum rates for hospital charges. Although the programs differ substantially from state to state, recent studies show that as a group they have been effective at restraining increases in hospital costs. The federal government, through financial incentives, could encourage additional states to adopt rate-setting programs. This could reduce not only federal and state outlays, but payments by private purchasers of hospital care.

One proposal would have the federal government share with the states some of the savings to Medicare that are attributable to state efforts in this area. Currently, states with effective rate-setting programs cut their outlays by only 11 cents (principally the state share of Medicaid) for every dollar that Medicare and Medicaid outlays are reduced. Allowing states to keep a higher share of these savings might induce additional states to initiate effective rate-setting efforts. Such incentives could be augmented by automatically granting waivers for alternative Medicare and Medicaid reimbursement policies to states participating in the program.

The major argument in favor of encouraging state rate-setting is that extensive third-party financing of hospital care (by

Phasing Out of CETA Title VI

GAO Supplementary Discussion

GAO Views. We have not reported on the effect that a reduction in Public Service Employment (PSE) funding would have on State and local governments operating the PSE programs or on the Federal budget. GAO reports have addressed such issues as participant eligibility, enrolling the most qualified applicants and the transition of participants into jobs not supported by CETA. GAO has stressed the importance of moving participants out of the program and into unsubsidized employment in order to provide the maximum number of eligible applicants the opportunity to benefit from the title VI program.

CETA requires that not less than 80 percent of the funds allocated under title VI are to be expended only for wages and employment benefits to people employed in public service jobs. It would follow, therefore, that a reduction in enrollment for fiscal years 1982 through 1986, as presented in the CBO report, would result in reduced outlays for CETA's title VI program for this period. The net reduction in Federal outlays would depend on the extent of fiscal substitution and the probable increase in Federal expenditures in other areas such as public assistance payments.

Relevant GAO Reports. HRD-79-101, HRD-78,57, HRD-77-53.

GAO Contact: Maurice S. Moody, 523-8701

government agencies and private insurers) has eliminated the normal market restraints on hospital spending, leaving regulation as the only practical alternative. State-level limits on hospital revenues might be more effective than federal limits because of additional flexibility, the ability to tailor programs to local conditions, and opportunities for states to attempt a variety of approaches and learn from each other's experiences. Indeed, the House of Representatives, in amending the Carter Administration's hospital cost containment proposal so as to remove federal revenue limits, sought to encourage state-level programs (H.R. 2626, Hospital Cost Containment and Reporting Act of 1979).

The major argument against state rate-setting is that it is a regulatory approach. Although it has been effective at cutting costs thus far, there is no certainty that this success will continue or that it may not have been at the expense of quality of care and efficiency.

Savings to the federal government under this proposal would depend upon the number and size of states initiating rate-setting programs, the effectiveness of the program, and the details of the incentive formula. The estimate presented above, of \$2.4 billion in savings over five years, is based on assumptions that states accounting for 25 percent of hospital expenditures would implement programs in response to the proposal and that one-third of the Medicare savings would be returned to the states. Savings could be higher or lower, and could even be negative if few states initiated programs and those states that currently have programs were rewarded for continuation of their past efforts as well as for increased activity.

Incentives to States for Hospital Cost Containment

GAO Supplementary Discussion

GAO Views: GAO issued a report on September 19, 1980, entitled "Rising Hospital Costs Can Be Restrained By Regulating Payments and Improving Management" that assessed the impact of State prospective ratesetting programs on rising hospital costs. GAO determined that during the 3-year period 1975-77 the annual increase in expenditures per care for all community hospitals in the country averaged 14.9 percent. In States without a prospective ratesetting program the growth rate averaged 17.9 percent while States with prospective ratesetting programs averaged 13.9 percent--4 percent less than the States without programs and 1 percent less than the national average.

All the reasons that some prospective ratesetting programs have successfully controlled hospital cost increases are not readily apparent. There appears, however, to be a relationship between the effectiveness of some programs and elements essential to an effective ratesetting program identified in 1977 by the Health Care Financing Administration (HCFA):

- (1) All hospitals within a given system should submit accounting and reporting data based on uniform systems.
- (2) Health planning and ratesetting should be closely coordinated.
- (3) Prospective ratesetting systems should focus on total hospital expenditures including utilization factors.
- (4) Prospective ratesetting systems should cover all payers.
- (5) Hospital participation in prospective ratesetting systems should be mandatory
- (6) Statistical screens should be established to determine what hospital costs are reasonable.
- (7) An appeals or exceptions process should be created to allow hospitals the opportunity to rectify what they believe to have been an inappropriate decision.

HCFA's participation of Medicare in prospective ratesetting programs is limited to experimental and demonstration projects as provided by section 222 of the Social Security Amendments of 1972 (P.L. 92-603). This inability of Medicare to participate has probably reduced the effectiveness of State prospective ratesetting programs. As a result GAO recommended the Congress amend the Social Security Act to permit full participation of HCFA's Medicare program in existing prospective ratesetting programs.

Since issuance of the GAO report an HHS contractor assessing prospective ratesetting programs also concluded that these programs have been successful in restraining hospital cost increases. Their final report, however, will not be available until early 1982.

Relevant GAO report - HRD-80-72  
PAD-80-17

GAO Contact: William A. Gerken, 275-5132

TERMINATION OF CERTAIN SOCIAL SECURITY BENEFITS

Phasing Out Postsecondary Student Benefits. Both the Ford and the Carter Administrations recommended phasing out Social Security postsecondary student benefits, which are paid to unmarried full-time students between 18 and 22 who are dependents of retired, deceased, or disabled workers. Child dependent benefits otherwise stop at age 18.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	-24	-96	-216	-391	-612	-1,339
Outlays	650	1,235	1,820	2,480	2,710	8,895

NOTE: Preliminary estimates, subject to change.

This entitlement was added to the Social Security system in 1965. Since that time, the Congress has greatly expanded other forms of student assistance. Thus, it can be argued that phasing out these Social Security student benefits would eliminate some duplicative payments; other federal student aid programs would ensure that those in need would not be denied access to higher education for financial reasons.

The argument against this reduction in Social Security benefits is that the vast majority of full-time students are still financially dependent upon their families. Therefore, the dependency notion behind the Social Security system's benefits would suggest that continued payments are warranted.

If no new student beneficiaries were added after July 1981, and if those already receiving benefits were phased out over the next three years, federal savings would amount to nearly \$8.9 billion in the 1982-1986 period. These savings would be partially offset by increases in the costs of other federal student assistance programs.

The increase in budget authority shown above and in the following tables represents additional interest that accrues to the trust funds because their balances are higher on account of the reduced outlays for benefits.

Phasing Out the Parent's Survivor Benefit. Survivor benefits are paid to the parent (typically, the mother) of children until they reach age 18. If the parent's benefit (but not the children's) was stopped when the youngest dependent turned 16, annual savings would be about \$500 million. If the benefit were phased out over three years, the savings in the 1982-1986 period would be nearly \$1.7 billion.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	-1	-5	-27	-67	-112	-212
Outlays	25	90	500	525	535	1,675

NOTE: Preliminary estimates, subject to change.

The case for this change rests on the belief that a single parent whose youngest child is age 16 or 17 is not homebound and can join the work force; in fact, about half of such parents are in the work force. An argument against making this change is that many parents, typically the mothers, have little recent job experience, face problems finding a job in times of high unemployment, and are likely to receive relatively low earnings compared with the family income before the death or disability of the covered spouse.

President Carter proposed phasing out this benefit in his 1980 budget, but the Congress did not act on the proposal.

Phasing Out the Minimum Benefit. The minimum Social Security benefit for new beneficiaries was frozen at \$122 per month in 1979. Thus, as earnings rise over time, the minimum benefit will cease to be a factor boosting recipients' benefits over the levels that would result from the application of the regular benefit calculations based solely on past contributions. Eliminating the

minimum benefit immediately would save \$65 million in the first year and \$790 million over the 1982-1986 period.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	-2	-10	-22	-44	-56	-134
Outlays	65	135	160	205	225	790

NOTE: Preliminary estimates, subject to change.

The argument for eliminating the minimum benefit is that a significant number of those receiving it are retirees who spent most of their working careers in noncovered employment, typically in government. In fact, about one-fifth of these recipients of the minimum benefit have earned pensions under other programs. The argument against eliminating this benefit immediately is that many of those helped by it are persons who had low earnings, not former government employees receiving a windfall. Elimination of the minimum benefit would increase the demands on the Supplemental Security Income (SSI), food stamps, and other welfare programs, thereby offsetting some of the savings to the Social Security system.

President Carter also proposed phasing out the minimum benefit in his 1980 budget, but the proposal was not enacted.

Phasing Out the Death Benefit. A lump sum death benefit of \$255 is paid to surviving families of fully insured workers. Since families do not receive a regular Social Security benefit for a deceased family member for the month in which the death occurred, the lump sum death benefit is the last benefit received for that person. The amount paid is meant to cover part of burial costs, but it normally covers only a small part of them. If the benefit was eliminated and the survivors experienced financial hardship, the SSI or other needs-based assistance programs could be used to provide assistance. Elimination of the death benefit could save over \$2 billion in the 1982-1986 period.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	-15	-46	-80	-118	-159	-418
Outlays	400	410	420	435	450	2,115

NOTE: Preliminary estimates, subject to change.

Aside from the financial hardship that could result, elimination of the death benefit could pose certain administrative difficulties for the Social Security system. The request for the death benefit constitutes one method by which the system learns that a recipient has died, and that regular benefits should be stopped.

Again, in his 1980 budget, President Carter proposed phasing out the lump sum death benefit, but the Congress did not act on the proposal.

Termination of Certain Social Security Benefits

Phasing Out Post Secondary Student Benefits

GAO Supplementary Discussion

GAO Views. Congress should amend the Social Security Act to discontinue payments to post-secondary students and take the necessary steps to assure that the Office of Education will have sufficient financial resources to meet any increased demand for aid arising from discontinuance of these benefits.

The basic purpose of the Social Security program is to provide some minimum family income in the event of the taxpayer's retirement, disability, or death. However, Social Security student benefits divert tax money from that basic purpose. During the 1979-1980 school year, it diverted \$1.95 billion. Student benefits are being paid while, even after imposition of increased taxes upon Social Security contributors, there is doubt the system can fulfill its basic purpose without still further increases.

Our report also supports a phase out of the student benefits program because it

--duplicates financial assistance provided by other programs paying education benefits, and

--gives many students more money than their school costs warrant, inequitably curtails--or bars altogether--benefits to other students, and deprives non-students.

We agree with the Congressional Budget Office that significant savings can be achieved if the student benefit program were terminated. Were student benefits to post-secondary students to be terminated effective Fall 1981, our work shows that the estimated net first year savings to the Social Security taxpayers would be \$1.4 billion, and the net savings to all taxpayers in that year would be about \$1.1 billion.

If the program were to be phased out over a 5-year period--fiscal years 1982 through 1986--the estimated savings to the trust fund would be \$5 billion. Net savings to the taxpayer for the same period would be \$4.2 billion after an increase in cost to the Office of Education Basic Grant Program to meet any increased demand for aid arising from discontinuance of Social Security student benefits.

Relevant GAO Reports.

HRD-79-108, August 30, 1979

GAO Contact: Peter McGough, 987-3138

## Termination of Certain Social Security Benefits

### Phasing Out The Minimum Benefits

#### GAO Supplementary Discussion

GAO Views. Congress can save the Social Security trust fund \$650 million in fiscal years 1982 through 1986 by eliminating the minimum benefit provision of the Social Security Act for new beneficiaries.

The minimum benefit provision, intended to help the poor, has in recent years mainly benefited retired government workers with pensions and homemakers supported by their spouse's income. Our study of beneficiaries who were awarded minimum benefits during 1977 showed approximately 44 percent of sampled beneficiaries received no additional income from the minimum provision because of offsets required in other Federal programs. More than half of the remaining 56 percent had income or support from other sources.

The need for the minimum benefit was greatly reduced in 1974 with the enactment of the Supplemental Security Income program. This program established a Federal minimum income level for the aged, blind, or disabled. Before the program, the minimum social security benefit may have been the only source of income for many people, but now most needy elderly are eligible for Supplemental Security Income.

A few minimum beneficiaries are not eligible for the Supplemental Security Income program even though they may be needy. This group includes individuals who selected early retirement and widow/widowers age 60 through 64. They are not eligible for the Supplemental Security Income program because they are not aged, blind, or disabled. The President's proposal could be amended to authorize a limited Supplemental Security Income payment which would replace the lost portion of the social security benefit provided they are needy and otherwise meet the program's eligibility requirements except for age.

If the minimum benefit provision of the Social Security Act were eliminated, our work shows that the net savings would be \$405 million for fiscal years 1982 through 1986 after a \$245 million increase in Supplemental Security Income to replace the portion of the Social Security benefit lost.

#### Relevant GAO Reports.

HRD-80-29, December 10, 1979

GAO Contact: Peter McGough, 987-3138

## Termination of Certain Social Security Benefits

### Phasing Out the Death Benefit

#### GAO Supplementary Discussion

GAO Views. Social Security has paid more than \$6 billion in lump sum death benefits since 1940, the first year payments were made. In fiscal 1978, about 1.3 million lump sum death payments were made totaling about \$332 million.

The lump sum death benefit was part of the original Social Security Act of 1935. At that time, this was an important benefit because there was no provision for survivors benefits. It provided funds for the deceased wage earners survivors, dependents, or estate toward the costs that arise at the time of death.

Subsequent amendments provided for benefits to survivors and dependents of deceased wage earners. In 1950, the intent of the lump sum payment was changed from the original concept of a return on an individual's contribution to the Social Security program to one of providing a modest payment for expenses of the last illness and burial of the deceased worker. The maximum benefit is \$255.

While GAO has not developed estimates of cost savings which could be realized if the benefit was eliminated, the savings would be considerable. HHS estimates that eliminating the current lump sum death benefits would save the Social Security trust fund \$227 million in fiscal 1980 and \$378 million in fiscal 1984. The net savings would be \$221 million in fiscal 1980 and \$370 million in fiscal 1984 after establishing a modified death benefit under the SSI program.

It is HHS' view that the lump sum death benefit is not earnings related and does not seem particularly appropriate under the earnings-related social security programs. The proposal for a death benefit under the SSI program provides for payment to people who are most in need of the payment.

#### Relevant GAO Reports.

HRD-80-87, August 8, 1980

GAO Contact: Peter McGough, 987-3138

CHANGES IN SOCIAL SECURITY INDEXING

Since 1975, Social Security benefit payments have been adjusted automatically, or indexed, to reflect increases in the cost of living. In recent years, the specific index used to calculate this cost-of-living adjustment, as well as the automatic nature of the adjustment itself, have come under increasing scrutiny. The specific index used is the revised Consumer Price Index (CPI) for urban earners and clerical workers. The CPI has been thought to overstate the actual rise in the cost of living over the past few years because it reflects an outdated consumption pattern (1972-1973) and because of the manner in which it treats homeownership costs. The first defect causes an upward bias in the index because it does not recognize that consumers adjust their purchases when prices are rising--buying less of goods whose prices have risen most rapidly, and more of substitutes with more slowly rising prices. For example, despite the reduced level of energy consumption brought on by price increases, the CPI still reflects oil consumption levels antedating the OPEC embargo of 1973-1974. In addition, the CPI treatment of homeownership costs exaggerates actual shelter costs because it uses housing purchase prices that reflect not only the cost of shelter but also the investment value of housing. In addition, mortgage interest rates are given inordinant significance in the CPI, a fact that makes the index rather volatile.

The use of automatic indexing has come into question because of the large costs it entails for the federal budget during inflationary periods, and because of the question of fairness that arises when retired workers are given more protection against inflation than those still in the work force. The 14.3 percent cost-of-living adjustment paid in July 1980 will add nearly \$17 billion to Social Security outlays in fiscal year 1981 alone. This will be compounded in future years as successive cost-of-living adjustments are calculated on benefit levels that have been increased by previous adjustments.

Using Lower of Wage or Price Index. Several proposals have been advanced for dealing with these problems. One option would be to limit the annual cost-of-living increase to the lower of the rise in the CPI or of a wage index. Wages ordinarily rise faster than prices because of productivity increases. During the 1970s, however, there were two periods (1974-1975 and 1980) when large oil price shocks combined with recessions to make prices rise faster than wages. During these two periods, when the purchasing power of workers declined, Social Security benefits were fully protected through automatic indexing.

CBO Proposal

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<hr/>						
CBO Baseline and Carter Budget						
BA	-211	-529	-916	-1,350	-1,925	-4,931
Outlays	3,815	4,355	5,053	5,643	6,325	25,191
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NOTE: Preliminary estimates, subject to change.

If benefit increases were limited to the lower of the rise in wages or of the CPI starting with the adjustment scheduled for July 1981, the estimated savings would total about \$26 billion through 1986. Choosing the lower of a wage or a price index would prevent the benefits of retirees from rising faster than the incomes of workers in times of falling real wages. This option, however, would result in lower real benefits for Social Security recipients than under current law. The National Commission on Social Security, which has endorsed this option in its preliminary report, has also proposed that beneficiaries ultimately be compensated for such losses by allowing Social Security benefits to rise by more than the increase in prices when wages are rising faster than prices. Such a catch-up provision would reduce the savings estimated in the table.

The increased budget authority shown above and in the following tables represents additional interest that accrues to the trust funds because their balances are higher on account of the reduced outlays for benefits.

Limiting Increase to 85 Percent of CPI. A second option would be to increase the government's discretion with respect to the automatic cost-of-living increases. One way of doing this would be to follow the procedure now used to adjust white-collar federal pay scales. Each year, after reviewing the nation's budgetary and economic health, the President could propose to the Congress a cost-of-living increase for Social Security not to exceed the rise in the CPI. The recommendation would take effect unless the Congress acted to alter it. If the President and the Congress held the increases in benefits to 85 percent of the expected rise in the CPI starting in July 1981, savings in Social Security outlays over the 1982-1986 period would total about \$43 billion. These savings, of course, would represent a substantial erosion of real benefit

levels—amounting to an 8.2 percent reduction from what the level would be under the current system by 1986.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<hr/>						
CBO Baseline and Carter Budget						
BA	-105	-410	-934	1,739	2,893	-6,081
Outlays	2,848	5,178	8,158	11,745	15,959	43,888

NOTE: Preliminary estimates, subject to change.

Shifting to the PCE. A third option, one that would respond to the criticisms of the dated nature of the CPI's consumption pattern and its treatment of shelter costs, would be to base the cost-of-living adjustments for Social Security on rises in the Personal Consumption Expenditures (PCE) chain index of the National Income and Product Accounts. The PCE measures housing by using a rental equivalency concept and continually changes the market basket of goods and services that are priced to reflect changing consumption patterns. Such a shift, if implemented before the July 1981 adjustment, would save an estimated \$11 through 1986.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<hr/>						
CBO Baseline and Carter Budget						
BA	-73	-187	-314	-503	-733	-1,810
Outlays	1,863	1,185	1,953	2,442	2,791	10,234

NOTE: Preliminary estimates, subject to change.

The savings estimates presented for all three options refer only to Social Security. Several other federal retirement and disability programs are also indexed to the CPI, including Railroad Retirement, Supplemental Security Income, veterans' pensions, Military Retirement, and Civil Service Retirement. If the same method of adjustment were applied to those programs, additional savings would result.

Changes In Social  
Security Indexing 1/

GAO Supplementary Discussion

GAO Views. In recent weeks we have been asked on many occasions to provide our views on budget controllability, including the particular problems of controlling entitlements and indexed programs. We have issued many reports and testified on a number of occasions on the individual programs. In addition we have further studies underway that relate to the general issues of controlling entitlement and indexed programs. With very few exceptions, most entitlement programs are indexed programs and vice versa.

The nature of entitlement programs makes their cost largely beyond congressional control under current law and difficult to predict accurately. The source of uncontrollability of entitlement spending lies in an entitlement's creation of legally enforceable claims to benefits. Entitlement programs require the payment of benefits to any person, State, or local government meeting the eligibility requirements established by law. Once enacted, the authorizing legislation automatically creates legally enforceable claims to benefits. Entitlement costs are difficult to predict because most entitlements are open-ended--i.e., benefits must be provided to all eligible persons who apply.

The GAO has consistently held that when viewed over a long enough period of time there are no uncontrollable programs in the Federal budget. Changes in the laws establishing these "uncontrollable" entitlement programs surely can be made. The only question is the length of time necessary to make the changes.

There are six basic methods of change that can limit spending for existing entitlement programs:

- Eliminate the program altogether.
- Change the method, frequency, or basis for indexing the program.
- Change the eligibility criteria--by changing regulations to target the most needy.
- Improve management efficiency of the program.
- Place a cap on the program.
- Limit spending to annual appropriations.

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1/applicable to all entitlement and indexed programs.

Relevant GAO Reports. PAD-79-22, Summary letter to Congress in progress (PAD-81-21)

Contact. Kenneth Hunter, 275-2354.

## Changes in Social Security Indexing

### GAO Supplementary Discussion

GAO Views. The issue of lowering the rate at which Social Security benefits are indexed is closely related to the issue of whether the Consumer Price Index (CPI) is an appropriate index for use in indexing these payments. Some analysts feel that the use of the present CPI overcompensates beneficiaries for the effects of inflation. Modifications of the index have been suggested. The use of an alternative index could potentially achieve budgetary savings closely approximating those estimated for the 85 percent limit. However, modifications of the CPI or arbitrary substitution of a different index raises serious questions concerning the credibility of our statistical system. In addition substitution for, or modification of the CPI, could just as easily achieve an effect, over the long term, that is the opposite of what is expected.

The imposition of an 85 percent limit suffers from two major drawbacks: (1) it is arbitrary, and (2) it requires a judgment as to who should be fully protected from inflation, and who should bear the burden. However, if one is interested in reducing budgetary expenditures by reducing Social Security benefit payments, the imposition of a limit on the rate of indexing has at least two advantages. First, it makes clear the purpose of the reduction (unlike reducing expenditures by changing price indexes). Secondly, it provides greater assurance that the estimated reductions will actually be achieved, as opposed to the uncertain effects of changing price indexes.

Relevant GAO Report. PAD-79-22.

Contact. Gail Makinen, 275-3584.

CHANGES IN CIVIL SERVICE AND MILITARY RETIREMENT BENEFITS

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	1,221	1,401	1,385	1,423	1,474	6,904
Outlays						
Annual adjust- ments with Social Security base	1,696	2,026	2,087	2,198	2,222	10,229
Wage increase limitation	<u>315</u>	<u>344</u>	<u>369</u>	<u>395</u>	<u>422</u>	<u>1,845</u>
Total	2,011	2,370	2,456	2,593	2,644	12,074
Carter Budget						
BA	46	416	399	385	429	1,675
Outlays	900	1,412	1,468	1,546	1,587	6,913

NOTE: Preliminary estimates, subject to change.

Federal civilian and military retirement annuities are currently adjusted twice a year to reflect changes in the Consumer Price Index (CPI). These adjustments are more frequent than the once-a-year increases provided Social Security beneficiaries, and in recent years have exceeded the pay adjustments provided active employees. From October 1978 through October 1980, cumulative adjustments for federal retirees totaled 33 percent while the comparable pay adjustments for federal white-collar employees totaled 23 percent.

The Senate in 1980 approved a proposal that would have limited the frequency of federal postretirement adjustments to once a year, but the item was dropped in conference. In reconsidering this measure, the Congress could also change the base period and index used to calculate such adjustments. If the postretirement increases were limited to one annual increase occurring in October,

and the method used to make the adjustments was the same as for Social Security, the federal government would save \$10.2 billion in outlays through fiscal year 1986. This estimate assumes that the annual adjustments would, beginning with October 1982, reflect the calendar-year increase in the CPI from first quarter to first quarter. The October 1981 increase, a transition adjustment, would reflect the CPI change between December 1980 and the first quarter of 1981.

Further savings could be achieved if the size of future increases was limited to the lesser of changes in prices or wages as measured by the CPI and the average wage index (discussed in the item on Changes in Social Security Indexing). If this action was taken in conjunction with switching to annual adjustments, cumulative five-year savings would rise by \$1.8 billion.

The argument for having an annual rather than a twice-a-year adjustment is that federal retirees should not receive greater protection against inflation than Social Security retirees. But the protection would not be identical unless the adjustment date was also the same. This proposal assumes that the Social Security adjustment would also occur in October, rather than in July as the law now provides. If the uniform date was July 1 rather than October 1, the savings would be less than stated above.

Opponents of annual indexing argue that twice-a-year indexation for federal employees is a recompense for pay limitations imposed on federal employees and for the taxation of their retirement benefits. Federal pay is sometimes held below private-sector rates, mainly for budgetary reasons, and federal pensions are subject to income tax but Social Security benefits are not.

President Carter's budget recommendations for fiscal year 1982 incorporate savings from a change to once-a-year indexation for federal retirees. The Carter budget, however, uses a different date and base period from those in the proposal presented here, and it does not assume a switch to using the lower of price or wage increases. This, together with different economic assumptions, accounts for the additional savings from the Carter budget that would occur from the proposal presented here.

## Changes in Civil Service and Military Retirement Benefits

### GAO Supplementary Discussion

GAO Views. GAO has issued numerous reports and testified on several occasions concerning the need to change both the civil service and military retirement systems. Many of the changes we have advocated have been adopted, such as repeal of the 1-percent add-on feature, the cost-of-living trigger mechanism, and the so-called "look-back" provision. However, even with these changes, the Federal cost-of-living adjustment process is still more generous than those of non-Federal pension plans. Federal retirees are the only groups of which we are aware who receive unlimited cost-of-living adjustments automatically twice-a-year. We have strongly urged the Congress to enact legislation necessary to provide retirement cost-of-living adjustments only once-a-year to make the adjustment process more consistent with prevailing non-Federal practice. We have also suggested that inequities between active Federal employees and retirees could be minimized by limiting the amount of the cost-of-living increase for retirees to something less than the full percentage rise in the consumer price index (CPI).

Full, automatic annuity cost-of-living adjustments are costly. With outlays for Federal civilian and military retirement approaching \$30 billion annually, a 1-percent annuity cost-of-living adjustment increases retirement outlays by about \$300 million. Limiting annuity cost-of-living adjustments to less than the full percentage increase in the CPI could reduce retirement outlays by hundreds of millions of dollars annually. For example, if the 1979 adjustments had been limited to the pay increase percentage granted to active Federal white-collar employees, outlays for that year alone would have been over \$800 million lower.

The civil service retirement system generally permits employees to elect to retire as early as age 55--versus 65 in the private sector. However, the Office of Personnel Management (OPM) is permitting too many employees to retire voluntarily even earlier. Early retirements are costly--they cost at least \$109 million in fiscal year 1980--and should be used judiciously. We have recommended that the Congress repeal early retirement provisions of the Civil Service Reform Act and direct OPM to establish tighter controls over the use of early retirements.

Budgetary savings are also available by implementing several recommendations we have made concerning the disability retirement program. We believe changes should be made to the program which could serve to retain marginally disabled yet

potentially productive employees. While we have not recommended that private sector or social security qualification standards be applied to Federal disability retirees, those reports concluded that (1) benefits may have been paid unnecessarily to many retirees, (2) disabled Federal employees were not being effectively reassigned, and (3) economically and medically recovered annuitants were not always being removed from the disability retirement role.

The disability retirement system has grown significantly in the past few years--from about \$1 billion in 1975 to about \$2.5 billion in 1979. OPM has implemented some of our recommendations to reduce the number of disability retirement claims. OPM now requires that a direct relationship has to be shown between a deficiency in job performance and a specific medical problem. Previously, a claimant could obtain a disability retirement for a medical condition regardless of whether it had any effect on job performance. The claims rejection rate has now moved from about 10 percent to as high as 47 percent. It has been estimated that, if 20 percent of claims are disallowed as a result of the new processing procedures, the retirement system's normal cost will be reduced by about \$140 million on the basis of the 1980 payroll, and outlays from the fund could be reduced by as much as \$6 billion over the next 20 years.

Although the procedural changes should reduce retirement costs significantly, we believe OPM's actions do not go far enough. There is still a need for (1) a stricter interpretation of the disability definition, (2) improved policing of the disability retirement rolls, (3) more timely reviews of annuitants earnings, and (4) additional medical reviews. We also continue to question the extensive use of sick leave immediately before disability retirement. The extensive use of sick leave before filing for a disability retirement is a problem which costs the Government millions of dollars.

Relevant GAO reports. FPCD-76-80, July 27, 1976; FPCD-78-2, November 17, 1977; B-130150, July 1, 1980; FPCD-81-8; December 31, 1980; FPCD-76-61, November 19, 1976; FPCD-78-48, July 10, 1978; FPCD-80-26, November 30, 1979; FPCD-81-18, December 15, 1980.

GAO Contact. Robert Shelton, 275-5743

TAXATION OF ALL UNEMPLOYMENT BENEFITS

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	4.5	3.9	4.2	4.6	5.1	
Increase from Taxation of All Unemployment Benefits	0.0	3.9	4.2	4.6	5.1	17.8
Increase from Carter Budget				(no proposal)		

NOTE: Preliminary estimates, subject to change.

In principle, there is no reason to exempt unemployment compensation from income taxation. The payments are in fact income to the recipient, and ability to pay rather than the source of income should determine income tax liability. The lowered ability of a jobless person to pay taxes is already taken into account for income tax purposes through exemptions, deductions, the "zero bracket amount," and graduated tax rates.

The Congress partially acknowledged these points in 1978, when it changed the law to make a portion of unemployment benefits paid under government programs taxable for individuals with incomes over \$20,000 and for married couples with incomes above \$25,000. If all government-sponsored benefits of this kind were taxed effective January 1, 1982, the estimated revenue gain would be \$3.9 billion in fiscal year 1983, and \$17.8 billion over the 1983-1986 period. There would also be some lessening of the work disincentives associated with such benefits, including those in the rapidly growing Trade Adjustment Assistance program.

Opponents of such a change argue that unemployment benefits for the most part replace only a portion of lost wages, and that to tax such already inadequate payments runs counter to the basic income-support purpose of unemployment insurance programs. They also point out that existing benefit levels were set on the assumption that benefits would not be taxed; if they were now to be taxed, some rise in benefit levels would likely be necessary, thereby reducing the potential budgetary savings.

## Taxation of All Unemployment Benefits

### GAO Supplementary Discussion

GAO views. GAO has issued a report on inequities and work disincentives in the current system of unemployment compensation. In this report, we recommended that the Congress consider including unemployment compensation in taxable income.

The original decision to make UC nontaxable income was not part of any legislation, but the result of a 1938 Internal Revenue Service ruling. Because relatively few people were subject to Federal income taxes in 1938, the exclusion was a matter of administrative convenience with little economic impact. The situation today, however, is much different because most workers pay taxes.

To give recipients an incentive to seek employment and treat UC consistent with unemployment benefits paid in private plans, the Congress passed the Revenue Act of 1978 (Public Law 95-600). This act revised the tax exempt status of UC for a small percentage of the recipients. Compensation will be taxed if adjusted gross income exceeds \$25,000 for those married, filing jointly; \$20,000 for single taxpayers; and, regardless of income, for those married, filing separately. The act became effective in 1979, and it was reflected in tax returns filed by April 15, 1980.

We believe including UC in taxable income has merit both in increasing equity and in providing recipients with a financial incentive to work. When compensation is nontaxable, recipients in a high tax bracket benefit more from the tax-free nature of UC than recipients in a lower tax bracket. Further, recipients with working spouses benefit most from this inequity. As one of two workers in the family, these recipients would normally be in a higher tax bracket than if they were sole wage earners.

In addition to the equity issue, taxing UC reduces the percentage of income replaced and increases recipients' incentive to seek employment. The decision of whether or not to tax UC is complicated and has different ramifications for different classes of tax filers. In light of the equity and incentive advantages of taxing UC, we believe the Congress should also consider the effect of expanding the act's coverage to include recipients at all income levels.

Relevant GAO Reports. HRD-79-79

Contact: Victor F. Bouril, 523-8701

MODIFICATION IN TRADE ADJUSTMENT ASSISTANCE

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	1,275	500	450	450	450	3,125
Outlays	1,275	500	450	450	450	3,125

NOTE: Preliminary estimates, subject to change.

Workers who lose their jobs because of foreign competition qualify for Trade Adjustment Assistance (TAA) payments. TAA benefits currently are set at 70 percent of a worker's former average gross weekly wage, not to exceed the current average weekly manufacturing wage. These benefits, which can continue for up to 52 weeks, are considerably more generous than regular unemployment compensation. Any regular unemployment compensation the individual receives, however, reduces his TAA payment dollar for dollar.

Because of the recent recession and the concomitant problems facing the automobile industry, TAA outlays grew from about \$270 million in fiscal year 1979 to \$1.7 billion in fiscal year 1980. The General Accounting Office has suggested that TAA payments be limited to those who have exhausted their unemployment insurance benefits, be payable at the same level as the unemployment benefits, and be payable for up to 52 weeks following exhaustion of the unemployment benefits. If this approach was adopted before October 1, 1981, it could save almost \$1.3 billion, or nearly 90 percent of the program's anticipated costs in fiscal year 1982. The savings would decrease after fiscal year 1982, because total program outlays are expected to drop.

In the near term, those most likely to be affected by the change would be workers in durable goods manufacturing industries (notably automobiles), and, to a lesser extent, steel and rubber. In the longer run, workers in the electronics, leather, textile, and apparel manufacturing industries would also be affected significantly.

The argument for the change is that TAA recipients should not receive more generous payments than those provided by regular unemployment compensation simply because they happen to be unemployed for a specialized reason. The counterargument is that higher tariffs could prevent this type of unemployment, but would be costly to consumers generally. Special TAA benefits are, therefore, justified as compensation for those who must pay the price of the government's policy of lowering trade barriers.

Aside from budgetary savings, the proposed changes could well improve the functioning of labor markets. TAA, like other unemployment-based assistance programs, creates a disincentive for seeking work, an effect probably magnified in TAA's case by the greater relative size of the payments. This disincentive may result in deterring workers from seeking jobs in other industries, thus bolstering their attachment to a vulnerable industry and vitiating the adjustment goals the program is intended to attain.

## Modifications in Trade Adjustment Assistance

### GAO Supplementary Discussion

GAO Views. GAO has issued several reports to the Congress on trade adjustment assistance to workers. The latest report, issued on January 15, 1980, assessed the worker adjustment assistance program nationwide and found that weekly cash payments have helped few import-affected workers adjust to the changed economic conditions during their layoff because the payments were received by most in the form of a lump-sum payment after they had returned to work. The various processing delays that caused late payments to a great extent are inherent in the design of the program. Furthermore, most workers indicated that they experienced no severe economic hardship as a result of their layoff--which for most was not permanent--and were able to rely on regular unemployment insurance benefits and other income sources to meet their financial needs.

This was not the case for all workers. Some remained unemployed even after exhausting their unemployment insurance benefits. In our opinion, the adjustment assistance program should be targeted to these workers. Such an approach would target program benefits to workers experiencing long-term unemployment or permanent job loss and, at the same time, save millions of dollars now paid--often retroactively--to workers who do not experience permanent unemployment, most of whom return to work before exhausting unemployment insurance benefits. In addition, this approach would provide a longer period of income protection for those who experience the most difficulty in finding employment.

GAO recommended that the Congress amend the Trade Act of 1974 to require that import-affected workers exhaust unemployment insurance benefits before receiving up to 52 weeks of cash payments under the Trade Act. To minimize the possibility that the additional weeks of income protection under this approach would provide a disincentive to employment, GAO also recommended that the act be amended to provide that Trade Act benefits be continued at an amount comparable to that received under unemployment insurance, rather than 70 percent of a worker's average weekly gross wage as now prescribed.

In the report GAO estimated that at least \$165 million would have been saved if workers would have been required to exhaust unemployment insurance benefits before receiving Trade Act cash payments. That estimate was based on workers eligible for benefits under petitions certified by Labor as of December 1977. However, the universe of petitions from which GAO drew the sample excluded petitions covered by previous GAO reviews (petitions in various industries in the New England States, some petitions involving Pennsylvania apparel workers, and some petitions covering workers in the auto industry). The savings would have been somewhat more if also projected to these workers.

Recent Labor data indicates that the number of workers filing for benefits is continuing to increase rapidly. Therefore, it is reasonable to assume that potential savings which would result from adopting GAO's recommendations are substantially more than estimated in GAO's report. GAO has not formally projected potential savings through 1985, but we have no reason to dispute CBO's projections.

Relevant GAO Reports. HRD-80-11, HRD-78-153, HRD-78-53, HRD-77-152, ID-77-28.

Contact: C. I. (Bud) Patton, 523-8701

REDUCED FUNDING FOR LOWER-INCOME RENTAL ASSISTANCE

Each year, the federal government makes 15- to 40-year commitments under the Section 8 and public housing programs to subsidize the rents of some lower-income households in addition to those already receiving aid. The amount of additional assistance and the mix among programs is set annually by the Congress.

By the end of fiscal year 1981, approximately 3.3 million subsidy commitments will be outstanding and up to 2.6 million households will actually be receiving aid. Outlays for all assisted housing programs will total about \$6.6 billion in 1981. Because of the many outstanding assistance commitments that have not yet resulted in occupied units, expenditures would rise to more than \$11 billion by 1986, even if no additional subsidy commitments were made after 1981. If 255,000 new commitments were made in 1982—the estimated 1981 level—and if that annual assistance increment was maintained through 1986, outlays in that fiscal year would exceed \$15 billion.

Making Fewer Commitments. Future outlays for lower-income housing assistance could be cut back in a number of ways. If the fiscal year 1982 assistance increment was fixed at 150,000 and sustained at that rate through 1986 rather than kept at the 1981 level of 255,000, savings would total about \$2.4 billion over the five-year period, as shown in the table below. Still greater savings could be realized by rescinding authority to enter into commitments in 1981.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	11,249	12,470	13,717	14,996	16,341	68,773
Outlays	5	132	308	708	1,270	2,423
<b>Carter Budget</b>						
BA	9,986	11,070	12,177	13,311	14,505	61,049
Outlays	5	117	274	628	1,128	2,152

NOTE: Preliminary estimates, subject to change.

Raising Tenant Rents. Increasing the maximum proportion of income that new tenants are required to pay for rent from the current 25 percent ceiling to 30 percent could reduce outlays

through 1986 by \$2.8 billion, as shown in the table below. Such a change would raise the typical family's monthly rent by about \$30, but assisted households would still pay appreciably less than the nearly 40 percent of income now devoted to housing costs by the average unassisted lower-income renter.

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	38	123	212	316	419	1,108
Outlays	68	279	534	803	1,146	2,830
Carter Budget						
BA	38	123	212	315	418	1,106
Outlays	69	277	530	795	1,132	2,803

NOTE: Preliminary estimates, subject to change.

Increasing Use of Existing Housing. A third option relates to the housing mix. The Congress specified a funding mix for 1981 that was expected to result in about one-half the subsidy commitments going to persons living in newly built or substantially rehabilitated units, and the other half aiding persons living in existing dwellings. This action has reversed the recent trend toward a greater emphasis on new construction. Increasing the reliance on existing-housing assistance to 60 percent of the additional households assisted in 1982 and thereafter would increase outlays somewhat during the next few years (because of the shorter lead time to lease existing units) but would begin to result in savings by 1986, as shown below. Shifting the program

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline						
BA	2,758	3,152	3,544	3,930	4,348	17,732
Outlays	-3	-63	-116	-77	26	-233
Carter Budget						
BA	2,651	3,028	3,404	3,773	4,174	17,030
Outlays	-2	-60	-110	-72	28	-216

NOTE: Preliminary estimates, subject to change.

mix in this manner would reduce long-term obligations--and, therefore, eventually outlays--by more than \$17 billion even if the number of new commitments was not reduced.

The savings estimates from the three options given above are not additive. Adoption of all three or any two would have different consequences from merely summing the parts.

Reduced Funding for  
Lower-Income Rental Assistance  
GAO Supplementary Discussion

GAO Views:

Making Fewer Commitments - The CBO discussion does not include consideration of the subsidized and/or guaranteed housing programs operated by the Farmers Home Administration. In our FmHA report (PAD-79-15) we identified for each program the annual expected costs for each \$100 million in additional lending authority.

We estimated that a reduction of \$100 million in section 502 subsidized homeowners loans would result in savings of \$8 million in the first year and \$28 million after five years. We estimated that a reduction of \$100 million in section 515 & 521 - rural rental housing loans would result in savings of \$6.8 million in the first year and \$31 million after five years. The 1981 budget calls for a lending authority of \$2.2 billion for section 502 subsidized housing and \$800 million for section 515 & 521 rural rental housing. Because the loans themselves are off-budget, a reduction in their amount would not appear as a saving in the budget.

Raising Tenant Rents - In our June 1980 section 8 report (CED-80-59) we pointed out that raising the maximum tenant rent contribution was a popular suggestion of housing experts that we questioned. Many of these housing experts stated that section 8 provides too large a subsidy which has created a problem of equity since many low income families in need of housing assistance receive nothing.

Our report noted that 1979 housing amendment legislation contained provisions to increase the maximum rent-income ratio from 25 to 30 percent. However, in commenting on our June 1980 report, the Secretary of HUD stated that HUD should not force such an increase upon the poor and the elderly. We concluded that the large number of families in need of housing assistance versus the limited Federal dollars with which to respond to that need mandates a continuing effort by HUD to get the largest possible benefit from its subsidized housing dollars.

Increasing Use of Existing Housing - The possibility of savings from greater use of existing housing instead of new construction or rehabilitation is far less assured than the CBO writeup would indicate. Although the per unit yearly subsidy now being experienced for existing housing averages less than that for new starts, there is no assurance that the cost of subsidizing existing units will not escalate much faster in later years than would the subsidy for new units which once started, give the Government some control over rents for the term of the subsidy contract. Existing units have much shorter contracts. Calculations included in PAD-78-13 showed that under certain circumstances existing housing could prove much more expensive over a 20-year period. With a generally tight rental market which can be expected to continue through the next decade the potential for rapid escalation of existing rents and higher subsidies seems quite likely.

Another opportunity for savings not mentioned by CBO would be to shift a certain number of units from section 8 to public housing which cost analysis contained in PAD-80-13 shows to be a much cheaper alternative. Public housing is cheaper in the short run and also when off budget costs such as tax expenditures are considered for the long term. Direct yearly subsidy savings per unit would be in the area of 20 percent for each unit shifted from one program to the other and total subsidy reduction over a 20 year period would be in the range of 5 - 10 percent per unit. The potential savings for shifting only 50,000 units could approach \$66 million per year in the short run.

The same report also indicates other possible savings in the section 8 program which could be achieved by emphasizing FHA TANDEM financing (or public housing) to the exclusion of section 11(b) tax exempt bond financing or state agency tax exempt bond financing. The savings from reducing the use of these section 8 alternatives result primarily from avoiding large tax expenditures if they are replaced by section 8 with FHA TANDEM. But shifting production to public housing results in reductions in both direct expenditures and tax expenditures. For example, we estimate that shifting 10,000 units from section 11(b) tax exempt financing to the public housing program would save roughly \$90,000,000 (in present value) over a 20 year assistance contract. The yearly savings would be higher in the first few years and taper off in the distant future. A variety of other options for savings are detailed in PAD-80-13.

#### Relevant GAO Reports

PAD-76-44, PAD-78-13, PAD-80-13, PAD-79-15, CED-80-59

#### Contact:

William Gainer (426-1645)

REPEAL OF THE CASUALTY LOSS DEDUCTION

	Annual Revenue Effect (billions of dollars)					Cumulative Five-Year Increase
	1982	1983	1984	1985	1986	
Loss under Current Law	0.9	1.0	1.1	1.3	1.4	
Increase from Repeal of Deduction	0.4	1.0	1.1	1.3	1.4	5.2
Increase under Carter Budget						(no proposal)

NOTE: Preliminary estimates, subject to change.

Under current law, taxpayers who itemize their deductions may deduct losses caused by fire, storm, shipwreck or other casualty, or theft, to the extent that the taxpayer is not reimbursed for the loss through insurance, disaster assistance, or other compensation. In 1964, the Congress limited the deduction to the amount of each loss in excess of \$100.

If the deduction was repealed effective July 1, 1981, revenues would increase by about \$400 million in fiscal year 1982 and by about \$5.2 billion over the 1982-1986 period.

The main argument for allowing the deduction is that taxpayers who suffer large, unpredictable, and unavoidable losses have a diminished ability to pay their federal income taxes and should thus be granted some financial assistance.

The present system, however, has three drawbacks: it is difficult to administer, it provides an uneven kind of disaster assistance, and it creates perverse incentives. The deduction is difficult to administer because defining a casualty loss is inherently difficult and valuing the loss is even more difficult. The definition, for instance, includes the loss of nonessential luxury items such as jewelry, furs, and ornamental shrubs, whose loss probably does not diminish an individual's ability to pay tax. A deduction is allowed only for sudden and unexpected losses. A deduction is allowed, for instance, for ornamental shrubs struck by lightning but not for the same shrubs lost gradually to winterkill.

The deduction provides uneven disaster assistance because the assistance is granted only to those who itemize their deductions, and the amount of the assistance for a given loss increases with the taxpayer's marginal tax rate. Only about 3 percent of all taxpayers claim the deduction, but it is skewed toward those with the highest incomes: the top 5 percent will receive about 40 percent of the financial assistance provided in 1981.

Finally, the current system discourages some taxpayers from taking precautions of their own against disaster—encouraging them to buy less insurance than they otherwise might.

An alternative to outright repeal would be to establish a higher floor for the deduction. Raising it from \$100 to \$250 would simply be an adjustment for the inflation that has occurred since 1964, and would cut the projected revenue loss by about \$150 million a year. In 1978, President Carter recommended that the floor be made dependent on income, and that the personal casualty and theft loss deduction be combined with the medical expense deduction, but the Congress took no action on that recommendation.

REPEAL OF THE CASUALTY LOSS DEDUCTION

GAO SUPPLEMENTARY DISCUSSION

GAO Views: The analysis by CBO parallels that provided in our report, "The Personal Casualty and Theft Loss Tax Deduction: Analysis and Proposals for Change: (GGD-80-10, December 5, 1979). In that study we analyzed 124 randomly selected cases pending in the Appellate Division of IRS and 32 decided court cases. We also examined Statistics of Income data. Among our findings were the following:

-The average adjusted gross income for all taxpayers in the sample was \$33,054.

-Sixty-nine percent of the items of property for which these taxpayers claimed personal casualty or theft losses were uninsured. Of the remaining 31 percent that were insured, 37 percent were underinsured, (or 11.5 percent of the sample).

-Twenty-seven percent of the loss property in the 124 sample cases consisted of ornamental trees and shrubbery and miscellaneous personal property.

The report deals with numerous technical problems that IRS faces in administering the provisions, pointing out that a 1973 study prepared under the IRS' Taxpayer Compliance Measurement Program shows that taxpayer compliance is lower for the personal casualty and theft loss deduction than for any other line item except the medical expense deduction, with over 64 percent of taxpayers covered by the sample deducting the wrong amount.

We recommended that Congress reassess the need to retain the personal casualty or theft loss deduction provision in its present form. We suggested that Congress could consider several alternatives, among which the following would have a significant revenue effect:

--Repeal the personal casualty or theft loss deduction. We said the estimated revenue gain to the Treasury would be \$425.2 million.

--Repeal the personal casualty or theft loss deduction and allow a deduction for all or a percentage of the cost of premiums for casualty and theft loss insurance covering real property and personal effects.

We said The annual estimated revenue loss would be \$1.25 billion if a deduction for the entire cost of premiums were allowed. This revenue loss measure could be reduced to approximate the revenue loss of the present casualty or theft loss deduction by limiting the deduction to a percentage of the annual premium cost with a ceiling imposed.

--Limit the allowable deduction to an amount in excess of a stated percentage of adjusted gross income. We said the revenue loss of a deduction with a 10 percent limitation would be \$311.2 million, \$114 million less than the present casualty loss deduction. (This alternative could limit the personal casualty loss deduction to loss caused by fire, storm, volcano, earthquake, flood, shipwreck, theft, and automobile accident. Also, the loss property could be limited to a building or structure which is the taxpayer's principal residence and to motor vehicles and ships.)

Relevant GAO Report: GGD-80-10, December 5, 1979.  
GAO Contact: Johnny C. Finch - 566-6503.

FUNDING FOR AFDC AND MEDICAID WITH A BLOCK GRANT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	550	600	670	740	800	3,360
Outlays	550	600	670	740	800	3,360

NOTE: Preliminary estimates, subject to change.

Aid to Families with Dependent Children (AFDC) and Medicaid are entitlement programs, in which federal and state expenditures depend upon the number of applicants meeting the eligibility standards and on the level of benefit allowed per recipient. States administer both programs in accordance with broad federal requirements that allow considerable state discretion with respect to eligibility and benefit levels. The federal government pays a proportion of each state's program costs, varying according to the state's per capita income.

One method of reducing federal outlays would be to terminate the entitlement aspect of these two programs and instead provide each state with a welfare block grant designed to meet the subsistence and health care needs of its low-income population. The Congress could explicitly establish a lower level of funding for such a block grant program and at the same time relax federal eligibility and benefit requirements. Block grant welfare proposals were introduced in the 96th Congress for AFDC, but Medicaid could be added because, for many persons, Medicaid eligibility depends upon meeting AFDC eligibility criteria.

The size of each state's block grant would be determined by a formula chosen by the Congress. Proposed formulas have included many factors, such as allowances for past state welfare expenditures, fiscal capacity, population changes, unemployment rates, inflation, and the size of a state's low-income population.

Proponents argue that block grant funding for welfare would allow each state to design a welfare program that would best serve

the needs of its poor within the limits of its budget. This flexibility would encourage innovation. For example, states could rely more heavily upon family income in determining eligibility and less upon whether a person is aged, disabled, or a member of an AFDC family.

Opponents argue that the federal government would have difficulty both in controlling the use of block grants and in monitoring compliance with any federal requirements accompanying them. State cutbacks in eligibility and benefits would likely occur because the cost of continuing to provide current services would probably eventually exceed the funds provided in a state's block grant. Since the additional cost of current services would be borne fully by the state, reductions in services would likely occur.

If the welfare block grants were funded at a level 2 percent below currently projected levels of spending for categorical purposes, the federal savings would amount to over \$3 billion through 1986. Several of the welfare block grant proposals introduced in the 96th Congress would have increased outlays initially, but led to savings after several years.

FUNDING FOR AFDC AND  
MEDICAID WITH A BLOCK GRANT

GAO Views. GAO will soon begin a survey to develop a methodology for assessing the fiscal impact on State government budgets of altering the medicaid formula to incorporate concentrations of program recipients. The objective is to develop the capacity to evaluate the financial impact of altering the Federal-State cost sharing arrangements to (1) take concentrations of recipients into account and thereby equalize fiscal burdens among States if they were to offer comparable benefits, and (2) evaluate the new Administration's proposals for shifting the responsibility for public assistance programs back to the States in terms of equalizing the fiscal burdens associated with these programs among the States.

Relevant GAO Reports. In GGD, none.

Contact. Sebastian Correira or Jerry Fastrup, 275-6169.

FUNDING OF CHILD NUTRITION PROGRAMS WITH A BLOCK GRANT

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
CBO Baseline and Carter Budget						
BA	0	1,600	1,770	1,950	2,125	7,445
Outlays	0	1,600	1,770	1,950	2,125	7,445

NOTE: Preliminary estimates, subject to change.

The federal child nutrition programs, which will cost about \$4.5 billion in fiscal year 1981, have been characterized as fragmented, overlapping, and administratively complex. At least 37 different federal reimbursement schemes are used for the 10 major programs.

Both Presidents Nixon and Ford recommended financing the separate programs with a single block grant. Had their proposals been accepted by the Congress, federal spending on child nutrition in fiscal year 1980 would have been about \$1.3 billion less than it actually was.

If a block grant funded at \$3.5 billion and adjusted for inflation was adopted in 1981, federal child nutrition expenditures over the 1982-1986 period would be about \$7.4 billion less than would be spent under a continuation of the present system.

The argument for the proposal is that it would simplify administration and enhance flexibility at the state and local level, and would permit federal budgetary savings without reducing nutrition assistance for needy children. At present, about 15 million non-poor children (from families with incomes over \$15,500) receive about \$800 million annually in federal subsidies from child nutrition programs. Block grant proposals for child nutrition programs usually do not include such children in calculating the states' block grants.

Opponents of such a change argue that the states might continue to assist nonpoor children, and that the block grants

would lead either to a cutback in assistance to poor children or force an increase in the federal appropriation. They also contend that some states may lack experience in planning and executing programs to meet the nutritional needs of children.

President Carter's budget recommendations for fiscal year 1982 do not include a proposal to fund child nutrition programs with a block grant. The Carter budget does, however, assume some reduction in child nutrition programs, as shown in the preceding example.

## FUNDING OF CHILD NUTRITION PROGRAMS WITH A BLOCK GRANT

### GAO Supplementary Discussion

GAO Views. GAO issued a report on June 13, 1978, pointing out that some low-income families participate simultaneously in as many as six different Federal programs providing food assistance. This multiple participation was specifically sanctioned in the legislation authorizing most food programs. As a result, some needy households could receive more in food benefits than the average amounts American families of comparable size spend for food. Typical overlaps in food assistance programs involved these combinations:

- Free school lunches and food stamps (using nationwide Department of Agriculture data, GAO conservatively estimated that this overlap results in \$112 million additional annual cost to the Federal Government).
- The women, infants, and children program and such programs as food stamps and school lunch (additional cost could not be determined).
- Free special milk and free or reduced-price school meals (estimated additional cost of \$39 million annually).

Inconsistencies in the programs' legislation and regulations have resulted in different eligibility criteria and procedures. Also, although the programs are directed toward the needy, there is no uniform definition of what "needy" means for all programs. Such inconsistencies create situations where a family could qualify for one program (like food stamps) but have too much income to qualify for another program (like free school lunch). Also, little program coordination exists at the local level for referring potential recipients to other programs or removing ineligible from all program rolls.

GAO recommended that the Congress (1) adopt a uniform income and asset definition of the term "needy", (2) establish consistent criteria and procedures for determining who is eligible for Federal food assistance, (3) consolidate certain Federal Food programs, and (4) on the basis of executive study, eliminate duplicate benefits by allowing consideration of benefits from one Federal food program when determining eligibility and benefit levels under others and require a single State/local agency to be responsible for certain administrative aspects of designated Federal food programs to help assure a more efficient delivery of food assistance to needy Americans.

GAO did not specifically recommend the use of the block grant program concept as a means to eliminate some of the overlapping and fragmentation problems in the child feeding programs. GAO did recommend that the Congress direct the appropriate executive departments to study, before implementing comprehensive welfare reform, ways to consider benefits from such programs as school lunch, school breakfast, and child care food when determining eligibility and benefits levels under a consolidated program (such as the block grant concept).

The Congressional Budget Office has estimated that the use of the block grant concept in the child nutrition programs could save about \$7.4 billion over 5 years. It should be pointed out that the adoption of the block grant concept would reduce any cumulative savings possible through making individual changes to each of the categorical programs.

Relevant GAO Report. CED-78-113

GAO Contact. Stanley Sargol, 447-7883

ADMINISTRATIVE IMPROVEMENTS IN AFDC

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	N.A.	187	195	201	207	790
Outlays	N.A.	187	195	201	207	790
<b>Carter Budget</b>						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

Savings may be possible in the Aid to Families with Dependent Children (AFDC) program from the establishment of a mandatory nationwide monthly income reporting system and a one-month retrospective accounting system.

Currently, most AFDC programs base initial eligibility and benefit levels on estimates of the income the applicant expects to receive in the following month. Benefits then continue until the recipient reports a change in income, or until a change is determined in the course of casework.

This proposal would require the determination of each month's benefits on the basis of the previous month's income. The recipient would be required to mail a monthly income status form to the public assistance office before benefits were calculated and a check mailed. Information from a 1976-1977 pilot program suggested that such changes could result not only in budgetary savings, but also in simplified eligibility determinations, more rapid processing of initial applications, and increased responsiveness to changing needs of recipients.

The major savings would be generated through the monthly reporting requirement, which would reveal changes in income not reported or detected under the current system. Such a system would improve the efficiency of program operation through more accurate calculations of benefits for those with fluctuating incomes and by more rapid elimination of those cases that become ineligible.

Because of offsetting start-up costs, it is not known whether there would be a net savings or cost in the first year.

Arguments against monthly reporting and retrospective accounting are twofold: First, the procedure would require increased processing of records and thus would generate additional administrative costs. Second, part of the savings would be related to the failure of the system to make legitimate payments, rather than to the elimination of overpayments or ineligible. This system failure would occur when AFDC recipients failed to send in their monthly income reports or reported their income incorrectly. Lack of education, an inability to deal with administrative forms, or an English-language deficiency could cause such failure rather than factors more in the recipient's control.

Because AFDC recipients are automatically eligible for Medicaid, a reduction in the number of AFDC recipients caused by this proposal would also result in fewer Medicaid cases and, thereby, would generate about \$85 million in savings in Medicaid over the 1982-1986 period.

Monthly reporting and retrospective accounting were mandated in H.R. 4904, the Social Welfare Amendments of 1979. The House of Representatives passed this bill, but the Senate did not act on it.

President Carter's budget recommendations for fiscal year 1982 contain a similar proposal, but insufficient details are available to permit calculating a comparison with the savings against the CBO baseline.

## Administrative Improvements in AFDC

### GAO Supplementary Discussion

GAO Views. GAO has issued two reports to Congressional Committees that included discussion of mandatory monthly recipient income reporting and recipient retrospective accounting. The first report, issued on May 23, 1978, to the Senate Committee on Human Resources, outlined GAO's concerns about key features and details of the Carter administration's Better Jobs and Income Act (S.2084 and H.R.9030, introduced September 12, 1977; neither was subsequently enacted).

On monthly reporting, GAO was concerned because the decision to require it was based largely on tests of this technique in an experiment conducted in Denver, Colorado, and Denver's experimental population may not have typified the bill's target population. Also, (1) the expected volume of reports might be difficult to process in a timely, accurate way, and benefit payments might be suspended and delayed and (2) certain types of recipients experience infrequent changes in income and other circumstances so monthly reporting would serve no real value. GAO believed that the concept should be more fully tested and that consideration should be given to requiring such reports only of high-risk clients.

On retrospective accounting, the administration proposed basing an applicant's eligibility and payment level on his or her income 6 months prior to the date of application. The retrospective approach would be less error prone and thereby produce more savings than the generally used prospective (anticipated future income) approach, it would be less responsive to an applicant's current needs, and could produce hardships. Shortening the retrospective period could reduce the incidence of hardship, but could also increase costs and make more applicants eligible for the program. GAO believed more analyses seemed needed toward a goal of maximizing program savings yet minimizing recipient hardships.

The second report, issued on July 20, 1978, to the Chairman, House Committee on Ways and Means, set out GAO's concerns on various key administrative features of two welfare reform bills, H.R.10711 and S.2777, intended to improve the welfare system through change to the AFDC, Food Stamps, and Supplemental Security Income programs; neither was enacted.

H.R.10711 proposed, among other things, that AFDC recipients report changes in income or other circumstances pursuant to regulations issued by the Secretary of HEW, but did not specify the frequency of recipient reporting. While GAO did not believe monthly reporting should be required for all recipients, even though an HEW study in Colorado indicated that monthly reporting was an effective method to obtain accurate information on recipient circumstances, GAO believed States should be required to adopt monthly reporting for recipients with frequent changes in circumstances, for example, those recipients with earned income.

S.2777 proposed that States decide whether to use monthly prospective or retrospective accounting, but the bill did not establish the day of the month to begin the accounting period. This could vary from the day of application to any day of the month. GAO believed that the same accounting method and period for all States is necessary to facilitate the exchange of data to identify and prevent fraud and abuse. Also, the bill did not synchronize the AFDC accounting method with that of the Food Stamp program. Food Stamps uses prospective accounting and provides benefits to most AFDC recipients. GAO believes it would simplify administration if the two programs used the same accounting method, preferably retrospective.

The bill also proposed that States be permitted, but not required, to require recipients to report monthly any changes in income or other circumstances. Allowing States to decide does not provide the uniformity GAO believed is desirable and attainable in the AFDC program. States should be required to adopt monthly reporting for recipients whose circumstances are most likely to change, such as wage earners; monthly reporting is unnecessary for those who are not likely to have frequent circumstance changes.

GAO has not formally projected potential savings through adoption of monthly reporting and retrospective accounting, but believes that higher costs associated with monthly retrospective accounting and applying monthly reporting only to AFDC wage earners would likely result in lower savings than CBO's projections.

Relevant GAO Reports. HRD-78-110, HR8-BILL-10.

GAO Contact. John C. Boyd, 245-1572

STANDARDIZING OF THE AFDC WORK EXPENSE DISREGARD

Savings from	Annual Savings (millions of dollars)					Cumulative Five-Year Savings
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
BA	178	184	191	198	206	957
Outlays	178	184	191	198	206	957
<b>Carter Budget</b>						
BA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Outlays	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

NOTE: Preliminary estimates, subject to change.

Monthly benefits under the Aid to Families with Dependent Children program (AFDC) are reduced by two dollars for every three dollars a recipient earns above the monthly earnings disregard of \$30. An amount equal to all child-care and work expenses is also disregarded. Proposals have been made to change the work-expense disregard to a flat amount, a percentage of earnings, or some combination of both, and to allow the deduction of only a fraction of child-care expenses.

One such proposal (the Senate Finance Committee's version of H.R. 3434) was passed by the Senate in 1980. It would have eliminated itemized work expenses from the calculation and replaced them with a standardized deduction equal to a fixed percentage of earnings. In addition it would have raised the initial earnings disregard from \$30 to \$70 a month and allowed only a fraction of child-care expenses to be deductible. Under this proposal, the recipient would have been able to keep earnings equal to the \$70 disregard plus child-care expenses plus 40 percent of earnings in excess of \$70 plus child-care expenses.

If this revised formula were enacted, federal AFDC expenditures would decrease by about \$178 million in fiscal year 1982. In addition, because AFDC recipients are automatically eligible for Medicaid, the reduction in the number of AFDC cases caused by this provision would also result in fewer Medicaid cases, resulting in Medicaid savings of about \$19 million in 1982 and \$106 million over

the five-year period. States would also experience savings under this proposal.

The arguments in favor of standardizing the various disregards are that it would save money, simplify the program's administration, and curtail the practice of claiming inappropriate work expenses. The argument against making such a change is that standardized methods for taking into account highly variable expenses, such as work- and child-related expenses, are likely to provide some AFDC recipients with windfalls and impose hardships on others. For the latter, this might prove to be a powerful disincentive to seek or expand employment.

President Carter's budget recommendations for fiscal year 1982 contain a similar proposal, but insufficient details are available to permit calculating a comparison with savings against the CBO baseline.

## Standardizing of the AFDC Work Expense Disregard

### GAO Supplementary Discussion

GAO Views. GAO has issued two reports to a member of Congress that discussed, in part, the work-related expense disregard and the earned income disregard. The first report, issued on August 3, 1977, compared Wisconsin's 21 percent flat allowance for work-related expenses with those of other States in Federal Region V and other selected larger States. GAO's analysis showed that the dollar amounts allowed for work-related expenses varied among the States because of different methods used for treating work-related expenses.

Wisconsin arrived at the flat allowance for all work-related expenses, except child care, in 1974 by randomly sampling AFDC cases and reviewing them for work-related expenses claimed; the results showed these expenses averaged 21 percent of an individual's gross income.

Title IV-A of the Social Security Act requires States to consider an individual's reasonable work-related expenses in determining eligibility for and amount of AFDC benefits. Each State can establish its own criteria for reasonable work-related expenses. However, as a result of an April 23, 1974, U.S. Supreme Court decision, Shea v. Vialpando (416 U.S. 251), States are not allowed to limit the dollar amount of work-related expenses that may be deducted. In the Court's opinion, any limitation placed on the dollar amount would act as a disincentive to an individual seeking or retaining employment.

The second report, issued on June 22, 1978, discussed in part the effect of both the \$30 and one-third income disregard and the work-related expense disregard in Wisconsin and elsewhere. GAO reviewed five selected studies of the effect of the disregard provisions on recipient work response that provided some evidence that recipient employment rates in the areas studied did increase as a result of the provisions. However, the studies also found that recipients did not work themselves off the welfare rolls, the major intent of the provisions, which resulted in increased caseloads and program costs. GAO's samples of working AFDC recipients in California and Wisconsin showed essentially the same result.

GAO also tested the effect of the provisions of one bill, the President's welfare reform proposal, of some 17 bills, which in part would have changed the provisions, that had been introduced in the 95th Congress to overcome the widely recognized weaknesses of the current disregards. This test, on selected AFDC cases in California and Wisconsin, found that welfare grants would generally be reduced or eliminated. The elimination of work-related expenses as a disregard, provided in the President's proposal, was a significant factor in eliminating the grant awards. GAO has not formally projected potential savings from any proposed change to the disregard provisions, but we have no reason to dispute CBO's projections.

Relevant GAO Reports. HRD-77-125, HRD-78-130.

GAO Contact. John C. Boyd, 245-1572

INCREASE IN IRS RESOURCES

	Annual Effect (billions of dollars)					Cumulative Five-Year Effect
	1982	1983	1984	1985	1986	
Revenue Increase	0.4	0.4	0.4	0.4	0.4	2.0
Increased Outlays for IRS	0.1	0.1	0.1	0.1	0.1	0.5
Net Revenue Increase	0.3	0.3	0.3	0.3	0.3	1.5
Increase under Carter Budget	(no proposal)					

NOTE: Preliminary estimates, subject to change.

The Treasury Department has estimated that as much as \$20 billion a year in interest and dividend income is not reported by taxpayers, resulting in a revenue loss of \$2 billion to \$3 billion a year. In 1980, President Carter proposed that taxes be withheld on interest and dividend income to deal with this problem, but the proposal met with overwhelming opposition in the Congress.

A major argument against the President's proposal was that a significant share of this revenue could be collected if the Internal Revenue Service (IRS) increased its efforts to match information returns from dividend and interest payors with individual tax returns. Approximately 80 percent are normally involved, little effort is made to follow up on discrepancies. Simply sending out more follow-up letters could significantly increase collections. CBO estimates that each one dollar spent on this type of minimal follow-up could produce as much as four dollars in additional revenues.

An increase of \$100 million a year in IRS resources for document matching and follow-up of income and dividend reports could thus generate added revenues of \$400 million a year, or a net revenue increase of \$1.5 billion over the 1982-1986 period.

## INCREASE IN IRS RESOURCES

### GAO SUPPLEMENTARY DISCUSSION

GAO Views: As CBO maintains, giving IRS the resources to implement a 100 percent matching program would produce a substantial yield. Available information indicates, however, that both the additional resources needed and resultant yield are less than CBO estimates.

We have reported that document matching is a powerful tool for detecting on a mass scale taxpayers who underreport (underreporters) or do not report their income (tax return nonfilers). Congressional opposition to the President's proposal for tax withholding on interest and dividend payments has been principally based on the fact that IRS already had but was not using an available tool (document matching) to insure that taxes were paid on such earnings. IRS has made considerable progress in using that tool, but 128 million (or about 24 percent) of the documents received for tax year 1978 were not used, mostly because they were received by IRS on paper instead of computer tapes. IRS maintains that it needs increased staff resources to transcribe the paper information documents not now used and to work the resultant increase in tax cases.

In our October 1, 1980, testimony we noted that IRS' current level (25 percent) of paper document processing would result in 76 percent of all information documents received being matched at a cost of \$85 million. This will yield \$483 million or \$5.70 for each dollar spent. At the 100 percent level, \$125 million would be required which would return \$590 million to the Treasury for a yield of \$4.70 for each dollar spent. Thus, IRS requires \$40 million in additional resources to reach the 100 percent level. This would provide a total increase in yield of \$107 million.

CBO's estimate that increasing IRS' resources by \$100 million would generate an additional \$400 million in revenue may be overstated. Available information only supports that rate of return for expenditure of the first \$40 million. What the yield would be from the balance of the proposed \$100 million depends on how IRS would use it.

Apparently CBO's estimates include resources for some improvements, beyond what IRS anticipates under a 100 percent matching program, in the number and quality of underreporter and nonfiler cases worked by IRS. In our July 1979 report on nonfilers we pointed out that various improvements could be made in how IRS selects which cases to work and the quality of the investigations. We made no estimate, however, as to the additional revenue these improvements would produce.

CBO's estimates may also be based upon some further improvements in the level of documents actually matched under a 100 percent program. (IRS estimates that 93 percent of the documents received would actually be matched under such a program; some documents simply are unusable.) In this regard, we have made the following points in our July and September 1979 and October 1980 testimony and in our October 1980 report:

- IRS does have sufficient computer capacity to process all information documents.
- Potential does exist to improve the current manual transcription of information through automation, possibly through use of optical scanning equipment along the lines of the Social Security Administration's processing of withholding (form W-2) documents.
- IRS should improve its efforts to increase the number and improve the quality of documents filed by payers on computer tapes, since they cost much less to process.
- IRS needs to ensure that it is effectively and economically dealing with the fact that many information documents are submitted without a taxpayer identification number or with an incorrect number. In this regard we found that (1) no data exists to show whether current efforts to obtain the correct number are cost beneficial and (2) IRS generally does not assess penalties on payers who submit documents lacking the taxpayer identification number.

It should also be noted that the document matching program covers types of income other than interest and dividends; e.g., wages. The cost and yield figures used by CBO and IRS seem to pertain to the total program and not exclusively to interest and dividends.

Relevant GAO Reports: GGD-79-69, July 11, 1979.  
Testimony of Allen R. Voss on IRS' efforts to detect and pursue nonfilers and underreporters; July 16, 1979.  
Testimony of Richard L. Fogel on the subterranean economy; September 6, 1979.  
Testimony of William Anderson on IRS' document matching program; October 1, 1980.  
FGMSD-81-4, Oct. 20, 1980.

GAO Contact: Johnny C. Finch - 566-6503

STRENGTHENING OF AGENCY DEBT COLLECTION ACTIVITIES

	Annual Revenue Effect (millions of dollars)					Cumulative Five-Year Effect
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
Increased Revenue	1,700	2,400	1,900	1,600	1,300	8,900
Additional expenditures	<u>-100</u>	<u>-100</u>	<u>-100</u>	<u>-100</u>	<u>-100</u>	<u>-500</u>
Net Increase	1,600	2,300	1,800	1,500	1,200	8,400
<b>Carter Budget</b>						
Increased Revenue	115	115	115	115	115	575
Additional expenditures	<u>-15</u>	<u>-15</u>	<u>-15</u>	<u>-15</u>	<u>-15</u>	<u>-75</u>
Net Increase	100	100	100	100	100	500

NOTE: Preliminary estimates, subject to change.

Back taxes owed to the federal government, and other debts past due by more than 90 days, amounted to about \$20 billion at the end of fiscal year 1979. Such delinquencies represent about 40 percent of current federal accounts receivable. The many federal agencies responsible for collecting these debts follow inconsistent practices in reporting delinquencies to commercial credit bureaus, imposing interest or penalties on overdue accounts, establishing adequate reporting and debt management systems, and allocating resources to debt collection activities. Significant budgetary savings could be achieved by strengthening agency collection activities.

The General Accounting Office supports legislation to clarify federal agency debt collection powers and remedies, including: disclosure of delinquencies to commercial credit bureaus, a direct role for agencies in debt litigation, more adequate interest rates on overdue accounts, application of Internal Revenue Service (IRS) refunds against nontax debts owed the government, and garnishment of federal salaries.

Those who oppose more vigorous debt collection activity by the government have expressed concern over the invasion of privacy, doubts about the practicality of collecting debts from low-income persons, and fear of the potential abuse of centralized financial records. Also, such an effort would require either increasing appropriations to the various agencies or reducing resources allocated to other public purposes.

Any estimate of the increases in federal receipts that might result from better management of federal debt collection activity is subject to considerable uncertainty. The collection estimates provided in the table assume savings from accelerated collection of outstanding debt, reduced debt write-offs, and some avoidance of future debt. The cumulative savings estimate of \$8.4 billion may be conservative, and could perhaps be achieved by increasing resources and improving agency collection procedures, without relying on IRS offsets or the garnishment of federal salaries.

President Carter's budget recommendations for fiscal year 1982 include a similar proposal, but at a much lower level of effort than that assumed in the CBO baseline. This accounts for the differences in the projected debt collections.

## STRENGTHENING OF AGENCY DEBT COLLECTION ACTIVITIES

### GAO Supplementary Discussion

GAO Views: GAO has issued several reports to the Congress and testified before various Congressional committees on the need for Federal agencies to improve their debt collection efforts. GAO found that there are two basic reasons why debt collection in the Federal Government has not kept pace with the increasing number of debts. First, many agencies have not been aggressive in pursuing collection. Second, present collection methods are expensive, slow, and ineffective when compared with commercial practices. In addition, presently if a debtor does not repay a debt owed the Government there is no stigma attached to the debtor. Whereas, in the private sector the individual's credit rating could be affected.

We have identified specific weaknesses in debt collection programs and have recommended a number of specific corrective actions to improve the recording, and collection of debts in the Government. Unfortunately, our recommendations have not always been implemented by the agencies. In addition, we concluded that top management does not devote sufficient attention to the collection of outstanding debts. In our view, they have been more concerned with delivering services and disbursing funds. Debt collection has received a low priority with only limited personnel often involved in the collection of these debts.

We have been actively working with the Congress, seeking legislation that will facilitate the Government ability to collect debts. We supported the proposed Debt Collection Act of 1980 (S.3160) as well as the proposed Debt Collection Practices Improvements Act of 1980 (S.3246). The latter bill has been reintroduced in the current session as S-42.

Recently, legislation was enacted that will exempt credit bureaus from the Privacy Act for certain Veterans Administration (Public Law 96-466) and Department of Education (Public Law 96-374) debts. We supported that legislation; however, we would have preferred legislation providing such exemptions for all Government agencies, as is provided by Senate bill 3160. In conjunction with a review of Veterans Administration collection activities, we demonstrated the feasibility of reporting Federal debts to a credit bureau. Our analysis shows that making the delinquent status of debts a matter of record with a credit bureau provides incentive for payment because prospective grantors of new credit are likely to consider credit history before extending credit. Our experience in reporting delinquent debts to credit bureaus has reinforced our belief that it is an effective tool for strengthening Government collection programs.

Another way of collecting many delinquent debts is for the Government to reduce or withhold future payments or benefits from the debtor through the use of offset.

GAO has not formally projected potential earnings that can result through improved debt collection. However, if Federal agencies were permitted to use IRS offset, garnishment of Federal salaries, and selected private sector practices, substantial amounts could be collected.

Relevant GAO Reports. FGMSD-78-59, FGMSD-78-61, FGMSD-79-19, HRD-79-21, HRD-79-31, CD-80-1, FGMSD-80-46, FGMSD-80-68 and HRD-81-5.

Contact: John F. Simonette; 275-1581

CHAPTER 2

ADDITIONAL COST-SAVING AREAS



SERVICE CONTRACT ACT SHOULD NOT APPLY TO SERVICE EMPLOYEES OF ADP AND HIGH-  
TECHNOLOGY COMPANIES

The Service Contract Act of 1965 protects workers' wages on Federal contracts when the contract's principal purpose is to provide services in the United States using service employees. For contracts over \$2,500, the minimum wages and fringe benefits must be based on rates the Secretary of Labor determines as prevailing for service employees in the locality.

On June 5, 1979, the Department of Labor ruled that all Federal contracts for the maintenance and repair of ADP, telecommunications and other high-technology equipment are subject to the wage determination and other requirements of the act. Previously, Federal contracting agencies had not considered these contracts to be subject to the act.

We believe that the act was not intended to cover maintenance services related to commercial products acquired by the Government. Also, Labor made no feasibility, cost/benefit, or impact studies to support its ruling.

We said that Labor's decision to enforce the act's coverage would adversely affect operations in the ADP, office equipment, and other scientific and high-technology industries. The ruling will impose an undue financial and administrative burden on the affected companies and that industry compliance would be counterproductive and costly. Furthermore, wage protection for these service workers is not needed.

The most serious concerns presented by the 18 corporations we contacted were that Labor's decision would eventually

- increase the administrative burdens and operating costs of each corporation and
- hinder employee productivity and morale by disrupting merit pay systems and staff assignment practices.

In addition, several corporations stressed the inflationary impact Labor's wage determinations could have on the industries' wage rates.

One corporation said a new system estimated to cost almost \$1 million would be needed to track data on employees servicing approximately 700,000 machines within the Government. Another corporation estimated that the cost to develop and implement new data processing systems and modify existing systems would be \$1.5 to \$2 million. A third corporation estimated the cost to design, develop, and install its system at over \$1 million, with annual maintenance costs of \$250,000.

The first corporation also stated that, to maintain its merit pay system and still comply with the act, a separate work force would have to be created for the Federal contracts. To do this, the corporation estimated it would incur developmental and implementation costs of \$9.35 million—including the almost \$1 million for a new system—and annual recurring costs of \$3.3 million.

One corporation said the first-year inflationary impact on its field service technician wages would be \$648,000. Another corporation estimated the impact at \$12 million. A third and much larger corporation said the inflationary impact on technician wages would be \$100 million the first year.

We obtained information on the act's application at 114 Federal agency installations. At 42 of the installations, contracting difficulties developed because contractors refused to accept contracts subject to the act.

At 21 of the installations, agencies also attempted or considered attempting to acquire maintenance services through third-party contractors—firms other than the original equipment manufacturers. Some third-party arrangements proved successful; others did not.

One Army installation had to permanently shut down its \$12 million computer system because the sole-source contractor would not accept a follow-on maintenance contract containing Service Contract Act provisions. The system is expected to be scrapped, and replacement computer services are being obtained from sources at much higher cost and considerable inconvenience.

Various Federal officials cited other impacts they believe would occur if maintenance and repair services under existing contracts expiring during fiscal year 1980 were discontinued and could not be renewed. These included

(1) complete stoppage of the space shuttle program, (2) inability to monitor and record vital signs of critically ill or postsurgical patients at a veterans' medical center, (3) loss of support to U.S. Army Health Service Command activities throughout the world, (4) delay or shutdown of test and research programs on the F-15 and F-16 fighters and B-1 bomber, and (5) serious programmatic impact on the design, development, test, production, and retirement of nuclear weapons.

We recommended that the Congress amend the Service Contract Act to make it clear that the act excludes coverage for ADP and other high-technology commercial product--support services--i.e., services the Government procures based on established market prices of commercial services sold in substantial quantities to the public.

Pending such action by the Congress and to avoid further serious impairment to the conduct of Government business, the Secretary of Labor should temporarily exempt from the act's coverage certain contracts and contract specifications for ADP and other high-technology commercial product support services.

Relevant GAO Report

Service Contract Act Should Not Apply to Service Employees of ADP and High-Technology Companies (HRD-80-102, 9/16/80).

FOR FURTHER INFORMATION

CONTACT: Gregory J. Ahart, 275-5470

Title: Review of the Use of Court Reporters

Our survey of Federal court transcript production practices indicates that the Judiciary can save \$10 million annually by phasing out its use of court reporters and instead using electronic recording equipment and transcribers to record judicial proceedings and prepare transcripts. By taking the added step of recovering its remaining cost (approximately \$10 million) from parties requesting transcripts, the Judiciary would net out paying nothing and the parties requesting transcripts would still pay about 30 percent lower transcript fees than they now pay to court reporters. The lower fees would enable the Government to save \$600,000 annually for transcripts required under the Criminal Justice Act and \$2 million annually for transcripts required by the Justice Department attorneys.

FOR FURTHER INFORMATION

CONTACT: William J. Anderson, 275-5106

Modification in Payment In  
Lieu of Taxes Programs

GAO Supplementary Discussion

GAO Views

GAO has called for a change in the method of payment under the various land payment programs. We believe that the most logical rational among the alternative payment programs is tax equivalency. Such change should eliminate the permanent earning-ly of receipts, set an expiration date on program authorization and require periodic appropriation action.

Additional changes should be made to the act which would correct the practice that allows States to influence the size of Federal payments to local governments resulting from the payment formula which provides that only selected receipt-sharing payments are used to reduce payments under the payment-in-lieu-of taxes program.

We also call for the change in provision of the law that allows additional payments to counties that are already being compensated under receipt sharing programs. We are recommending that minimum payment provision be deleted as well as deletion of certain special provision for grant lands.

By causing this change there should be substantial savings to the Federal Government.

Relevant GAO Reports

PAD-79-64, September 25, 1979; B-167553 July 24, 1980.

GAO Contact

Roy Jenney, 275-1827.

Federal Compensation Reform - Additional Work

Proposals for Improving the Management  
of Federal Travel

For fiscal year 1980 the Government spent more than \$3 billion on travel. While travel is vital to effective program implementation, frequent instances of questionable and costly travel provoke questions on the ways in which travel is managed. Budgets are essentially based on past levels of travel expenditures. The lack of accurate data on the cost and purposes of travel can make travel budgets unreliable and travel unmanageable.

Despite previous GAO recommendations that agencies develop more accurate data on the cost and purposes of travel, agencies have not taken appropriate action. Thus administration officials often do not know how travel money is being spent.

Agencies' requests for travel funds for fiscal year 1981 are inflated because the President's 1981 budget did not reflect all of the reductions in 1980 travel mandated by the Congress. The timing of the reduction forced the Office of Management and Budget to apportion the reduction among executive branch agencies too late for the agencies to consider the lower fiscal year 1980 spending levels when making their estimates for fiscal year 1981.

Different statutes establish travel entitlements for civilian and uniformed personnel, and different authorities write rules for travel. As a result, civilian and uniformed travelers receive different entitlements for similar travel. Differences also occur when the Congress does not simultaneously raise the per diem ceilings for the two groups. Even when the ceilings are identical, the General Services Administration and the Per Diem, Travel, and Transportation Allowance Committee have often established different per diem entitlements, resulting in different per diem allowances for civilian and uniformed travelers going to the same location. The difference may result in uniformed personnel receiving as much as \$25 a day more than civilian employees.

Because of its concern about travel abuses and in an effort to control costs, the Congress cut the fiscal year 1980 travel and transportation funds requested in the President's budget by \$500 million. This congressional action

reduced the fiscal year 1980 travel and transportation budget to \$8 billion (about \$3 billion for travel and \$5 billion for transportation).

GAO recommended that the Director, Office of Management and Budget, after consulting with appropriate congressional committees, revise budget guidelines to

- focus more specifically on the purpose of each kind of travel and require heads of departments and agencies to revise their reporting and budgeting systems accordingly and
- require that agency Inspectors General and internal auditors periodically test the accuracy of travel cost reporting.

Also, GAO recommended that the Director bring to the attention of top agency officials the agency managers' lack of compliance with Federal travel policies and direct the top officials to make sure managers follow these policies.

In addition to the actions needing to be taken by the Director, OMB, GAO recommended that the Secretary of Agriculture

- restrict the use of general travel authorizations to those employees whose work requires frequent routine temporary-duty travel and
- require written authorization for all other travel.

Also, the Secretary of Defense should propose a legislative package to make travel reimbursements more equitable between civilian and military personnel.

The Office of Management and Budget did not agree with GAO's recommendation that it revise its budget guidelines to focus more specifically on the purpose of each kind of travel. GAO continues to believe that the congressional appropriations and oversight committees and agency managers could benefit from additional data on the purposes of travel.

The Department of Agriculture disagreed with our recommendation concerning the use of general travel authorizations but said it will study certain types of travel to determine if those types could be more effectively controlled by individual trip authorizations. GAO continues to believe that Agriculture should restrict the use of general travel authorizations because the loose authorization procedures which the general authorization permits weaken the Department's ability to effectively manage travel.

The Department of Defense agreed with GAO's recommendation to propose a legislative package to make travel reimbursements more equitable.

Relevant GAO Reports. FPCD-81-13, December 24, 1980; FPCD-77-11, March 17, 1977; FPCD-77-84, October 28, 1977.

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LIBERAL DEPOSIT REQUIREMENTS OF  
STATES' SOCIAL SECURITY CONTRIBUTIONS  
ADVERSELY AFFECTED TRUST FUNDS  
(HRD-79-14, Dec. 18, 1978)

Section 218 of the Social Security Act (42 U.S.C. 418) authorized voluntary agreements between HEW and the States under which the employees of States and their political subdivisions are provided Federal Old-Age, Survivors, and Disability Insurance benefits under title II of the Social Security Act. Section 218(i) of the act requires that HEW's regulations for administration of voluntary agreements be designed to make the requirements imposed on States the same, so far as practicable, as those imposed on private employers. Notwithstanding this requirement, HEW was permitting the States to make quarterly deposits of Social Security taxes 1 month and 15 days after the end of each calendar quarter for covered State and local government employees even though private employers were required to deposit Social Security and withheld income taxes weekly, semimonthly, biweekly, or monthly--depending on the amount of taxes withheld. Further, HEW's deposit requirement was more lenient than the Internal Revenue Service's requirement. Most State agencies and local governments we visited were required to remit withheld income taxes to the Internal Revenue Service within 3 banking days after each quarter-monthly period in which a payday occurred (7th, 15th, 22d, and last day of the month).

The Social Security trust funds could have earned about \$1.1 billion in additional interest from 1961-79 had States been required to deposit taxes more frequently--monthly instead of quarterly--thus making the funds available to the trust funds for earlier investment. If the quarterly deposit requirements were continued, we estimated that about \$1.2 billion in interest would be lost during the 5-year period 1980-84.

On March 30, 1978, HEW published in the Federal Register a proposed rule to require States to make monthly deposits of Social Security taxes 15 days after the end of each month (referred to as the 15-15-15 proposal). On November 20, 1978, HEW revised its proposal to require States to deposit taxes for each of the first 2 months of a calendar quarter by the 15th day after each month, but taxes for the third month of a quarter would not be due until 1 month and 15 days after the end of the third month (referred to as the 15-15-45 proposal).

The States' primary objection to more frequent deposits was the loss of interest earned and cash flow on Social Security taxes from the time employees are paid until deposits are made. We stated that any such financial assistance to the States should be specifically legislated and not provided at the expense of the Social Security trust funds. We recommended that the Secretary of HEW reconsider the decision to implement the 15-15-45 proposal, and we urged that semimonthly or biweekly deposits be required. At a minimum, we suggested that HEW's original 15-15-15 proposal would be a viable alternative.

On June 9, 1980, the Social Security Disability Amendments of 1980 (Public Law 96-265) were approved, which mandate a 30-30-30 requirement, i.e., States must deposit Social Security taxes within the 30-day period following the last day of each month. This requirement is more lenient than HEW's original (15-15-15) or revised (15-15-45) proposals. The Senate Committee on Finance report (S. Rept. 96-408) states that the 30-30-30 requirement was intended to ease the transition to HEW's 15-15-45 proposal. However, by enacting the 30-30-30 requirement into law, HHS will be precluded from making a transition into any other deposit requirement unless the Congress amends the law.

As shown below, changing the quarterly deposit requirement to the 30-30-30 requirement will result in an estimated \$1.4 billion in additional interest revenues to the Social Security trust funds during fiscal years 1981-85. However, if as we urged, semimonthly or biweekly deposits were required and assuming that this requirement were effective beginning with fiscal year 1982, the trust funds could earn about \$339 million more in interest than under the 30-30-30 requirement during fiscal years 1982-85.

<u>Fiscal year</u>	<u>Estimated Additional Interest Income That Could Be Earned by the Trust Funds Over Previous Deposit Requirements</u>		<u>Difference</u>
	<u>Semimonthly</u>	<u>30-30-30-requirement</u>	<u>Semimonthly/ 30-30-30- requirement</u>
	(millions)		
1981	\$ -	\$ 154	\$ -
1982	284	235	49
1983	367	286	81
1984	432	337	95
1985	526	412	114
<b>Total</b>	<b><u>\$1,609</u></b>	<b><u>\$1,424</u></b>	<b><u>\$339</u></b>

Recommendation to the Congress

We recommend that the Congress amend the Social Security Act to require States to deposit Social Security taxes semi-monthly or biweekly. We also recommend that the Congress consider requiring States to deposit Social Security taxes using the same schedule that States now use to deposit withheld income taxes. Such a requirement would enable the trust funds to earn additional interest income over the \$339 million which could be earned by requiring remittances semimonthly or biweekly.

FOR FURTHER INFORMATION

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**LEGISLATION ON SIZING MILITARY MEDICAL FACILITIES NEEDED TO CORRECT IMPROPER PRACTICES, SAVE MONEY, AND RESOLVE POLICY CONFLICTS (HRD-81-24, December 17, 1980)**

Since the size of new military hospitals and clinics has a direct effect on their costs of construction and operation, the methods and assumptions used to determine appropriate sizes for these facilities are crucial. A key consideration in determining the size of these facilities is the extent to which space is needed for retirees and dependents of retired and deceased members. This factor has important policy implications because it will affect (1) the cost of constructing and operating medical facilities in the future and (2) the medical benefits available to military beneficiaries.

The Department of Defense (DOD) received about \$63 million in fiscal year 1980 to replace or renovate existing medical facilities or construct new ones and requested about \$248 million in fiscal year 1981. DOD spent about \$2.6 billion to operate its medical facilities in fiscal year 1979.

**FINDINGS/CONCLUSIONS:** GAO believes DOD should have the flexibility to plan the size of new military hospitals and clinics based on considerations of (1) cost effectiveness, (2) staff availability, (3) realistic workload projections, and (4) teaching and training requirements. Under existing legislation and current DOD instructions, only teaching and training requirements are considered in planning space for retirees and dependents of retired and deceased members in new or replacement medical facilities. New legislation could

- correct the services' current improper sizing practices,
- save money in the long run, and
- align the sizing policy with the policy for providing staff and other medical resources to facilities once they are built.

RECOMMENDATIONS: Because of the advantages to be gained from a new policy on sizing military medical facilities--correction of improper sizing practices by the military services, life-cycle cost savings, and reconciliation of currently conflicting policies--GAO recommends that the Congress amend title 10, section 1087, U.S. Code, to allow for the sizing of military medical facilities based on (1) cost effectiveness, (2) projected staff availability, (3) realistic workload.

Pending enactment of new legislation, the Secretary of Defense should:

- Direct the Secretaries of the Army, Navy, and Air Force to uniformly apply the current size limitations to both inpatient and outpatient facilities when programming space in new hospitals and clinics.
- Review the 5- and 10-percent factors used in sizing military medical facilities, as suggested in the conference report on the military construction appropriations bill for fiscal year 1977, to determine if these percentages are still valid for meeting teaching and training requirements.
- Consider, as part of the review, whether the 5- and 10-percent factors are the most appropriate factors to apply to outpatient and inpatient facilities.

--Revise DOD Instruction 6015.16, as necessary, based on the results of the review of the 5- and 10-percent factors.

If the Congress modifies the law in accordance with GAO's recommendation, DOD will need to develop a new sizing method which programs space in new or replacement medical facilities based on these four limitations:

--Life-cycle cost effectiveness.

--Projected staff availability.

--Realistic workload projections.

--Teaching and training requirements.

Each of the four limitations will generally lead to a different size estimate, requiring DOD to select the most appropriate one. This report describes how this can be done.

For further information

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**GAO'S COST CONTAINMENT PROPOSALS IN THE DEFENSE AREA**



SUMMARY OF THE PROPOSED AGENDA  
OF SIGNIFICANT MANAGEMENT IMPROVEMENTS AND  
COST REDUCTION OPPORTUNITIES

1. Consolidate military base support activities to produce several hundred million dollars of savings annually.
2. Complete the excellent work already begun in consolidating supply activities. Inventory reductions of at least \$350 million appear possible.
3. Begin now to establish single management of aircraft depot maintenance. If savings of only 10% are realized this would produce annual economies of \$200 million.
4. Further application of single management concept to Transportation should be considered.
5. Use both wholesale and retail inventories more effectively. Test audits reveal potential for savings of many millions of dollars annually.
6. Avoid excessive aircraft requirements to support noncombat missions. Savings of up to \$7 billion in investment costs, now scheduled through FY 1985, appear possible.
7. Consider life cycle logistics requirements during the weapon design stage, to save hundreds of millions of dollars of unneeded costs.
8. Weapon system funding should be consistent and better managed.
9. Multi-year contracting is an idea whose time has come. Air Force alone estimates reductions in investment costs of \$1 billion on six programs.
10. Lower cost alternatives should be examined before the Secretary of Defense and the Congress approve new systems.
11. Impediments to reducing the costs of weapon systems should be a prime concern of the Secretary of Defense.
12. Military pay reforms have been debated for two decades with very disappointing progress. New leadership is needed.
13. Many issues confront the Military retirement system and its financial soundness. Postponement of decisions now may spell disaster later.
14. The enlisted force composition needed for the future should be thoroughly evaluated. Action on these long overdue reforms is lagging.
15. Use of more civilians in morale, welfare, and recreation activities--and reduction in costs of the Military Exchange System--are advocated.
16. Reserve Forces Manpower management needs a fresh approach.

Following is a discussion of each of the above proposals.

LOGISTICAL SUPPORT ECONOMIES:  
SUPPLY, MAINTENANCE, AND DISTRIBUTION

About \$59 billion of the FY 1981 budget will go for that set of functions activities, services, and procurements called "logistics." They are spread across every budget appropriation and are heavily labor-intensive.

While precise goals must be set, it is clear that several billion dollars in annual savings can be achieved by implementation of the several actions discussed below:

1. First, Consolidate Military Base  
Support Activities

Almost 550,000 personnel--civilian, active duty military and reserves-- are assigned to the large variety of essential housekeeping and support tasks needed to keep Defense installations in daily operating condition. These tasks cover property repair and maintenance; police and fire protection; utilities; trash and sewage disposal; base supply and transportation; wharf and air field operation; food services; laundries; and many others.

These services cost an estimated \$12 billion in FY 1978 and continue, of course, to rise with inflation. The opportunities for economy lie in the fact that military installations in the same geographic area frequently do not share these services. Hence, avoidable duplication of staffing and facilities occurs. For example, in the Sacramento, California, area, there are seven major bases within a 60 mile radius. The total population of these bases is approximately 47,000 of which almost 10,000 are in base support functions.

DOD has only timidly approached this opportunity for savings by establishing voluntary and uncoordinated programs. We believe that if a single truly-effective program is to be achieved, the parochial interests of the Services must be sternly put aside. There must be a coordinated, systematic attack on unnecessary base support costs.

The establishment, by directive of the Secretary of Defense, of an authoritative single manager or project director to effect optimum base support economies can, we believe, produce several hundred million dollars of savings annually. It is one of the most obvious--and one of the easiest--sources of true economy which the new Secretary of Defense can achieve.

GAO report LCD 80-92 dated September 9, 1980: "Consolidating Military Base Support Services Could Save Billions"

2. Second, Complete the Excellent Work Already Begun  
In Consolidating Supply Activities

In the 1950s Congress directed DOD to consolidate the purchase, issue and use of common supplies. This was incorporated in the so-called "McCormick-Curtis Amendment" of 1958 which mandated consolidation of support functions and the elimination of duplication.

A series of commodity single managers were established (including medical, clothing, subsistence, industrial, electronics, and general supplies). Each procured, stored, and distributed supply items to the four Services. In 1961 this group was brought together by the then Secretary in an agency known as "The Defense Supply Agency" (DSA) responsible for some two million items of supply. Major reductions in inventory investment and personnel economies quickly ensued. Since then OSD civilian managers have repeatedly advocated further consolidation of consumable items by assigning a remaining 750,000 consumable items for procurement, storage, and issue by the Defense Logistics Agency (the successor to DSA). These OSD officials estimate that \$350 million in inventory investment can be saved. This may be conservative.

It is our understanding that strong resistance of the Services to these long overdue actions continues to postpone the realization of such desirable savings. A firm decision now by the Secretary of Defense would set in motion procedures that would pay handsome dividends in savings within two years.

While the above is the most dramatic opportunity for supply consolidation, there are two others which have been addressed in GAO reports that deserve early consideration:

—Eliminating Marine Corps logistics overlap with other services has already saved several million dollars, but further savings are possible. In response to a GAO report in 1975, the Marine Corps took steps to eliminate duplication of supply activities which other Services could just as efficiently perform for it—achieving immediate savings of about \$65 million. This was realized by reassigning some 157,000 items to other Service agencies for management, thus eliminating separate Marine Corps staff and facilities. However, there are at least another 39,000 items managed by the Marine Corps which the Services or the Defense Logistics Agency could efficiently manage for it. In addition, there are opportunities for the transfer to other Services of duplicative maintenance activities; use of other Services' depot overhaul facilities for selected items; and transfer of war reserve stocks to the storage facilities of other Services.

—Centralized ammunition management is a long-sought goal which has not been fully achieved. In 1973 the central management of conventional ammunition was advocated by GAO. The first steps

were taken by DOD in 1975, by designating the Army as the single manager. Despite this progress, much remains to be done. The current single manager's control is limited even within his own service (the Army). OSD proposed to expand the single manager concept and encountered considerable resistance from the Services. Thus there remain millions of dollars to be saved by installing a single system capable of providing intensive management of this critical commodity. The House Committee on Appropriations has shown continuing interest in this matter. While the Secretary of Defense has agreed in the past that changes are needed to improve this program, he has done little to implement them.

GAO report LCD 80-74 dated June 30, 1980 "Eliminating Marine Corps Logistics Overlap Saves Millions; Further Savings Possible"  
GAO report LCD-80-1 dated November 26, 1979 "Centralized Ammunition Management-- A Goal Not Yet Achieved"

3. Third, Begin Now To Establish Single Management of Aircraft Depot Maintenance

The Department of Defense spends about \$2.5 billion a year on depot maintenance of aircraft. In-house there are 15 depots valued at about \$1.8 billion. New investments in these facilities and their equipment is being made at the rate of some \$65 million annually.

The 15 facilities involved are six in Navy, five in Air Force, and four in Army (including two Electronic Depots). Our study showed that gross in-house capacity exceeds needs by 130 percent; and that DOD is spending as much as \$400 million annually for unused capacity in the aircraft industry.

This problem is massive and complex. A master plan and uniform cost accounting are essential to eliminate unneeded capacity and overheads, and to properly integrate Government-owned and private contractor facilities and capabilities. The savings, while difficult to estimate with precision, would-- if even only 10 percent of current costs--exceed \$200 million annually. We strongly have urged the Secretary of Defense to designate a single manager over aircraft depot maintenance. We are disappointed at the continued refusal of the Department to face up to these opportunities.

In addition to depot level maintenance, our studies show that the Air Force can centralize aircraft component repair in the field with significant savings. The Air Force has successfully centralized repair in selected situations such as the F-4 in the Pacific, engines for the military airlift command, and the C-141/C-5A aircraft overseas. However, these are but a few of many opportunities to economize by eliminating duplicate activities in the U.S. and overseas. The Air Force generally resists these opportunities on

the grounds that the analyses needed to make such changes are complex. However, the economies possible are very attractive and we feel that the Secretary of Air Force should direct that they be identified, starting with centralization of F-15/F-16 component repair overseas and in the U.S.

GAO report LCD 78-406 dated July 12, 1978 "Aircraft Depot Maintenance, A Single Manager Needed to Stop Waste"

GAO report 79-409 dated March 28, 1979 "Centralizing Air Force Aircraft Component Repair In The Field Can Provide Significant Savings"

4. Fourth, Further Application of Single Manager Concept To Transportation Should Be Considered

Since the National Security Act of 1947, Defense designated the Navy to be single manager for ocean transportation (1956); the Air Force to handle airlift service (1956). In 1965 DOD designated the Army to be the single manager for land transportation and common user terminals.

In 1970 the Blue Ribbon Defense Panel established by the then Secretary examined this multi-service approach to transportation. It recommended that transportation be further consolidated under a "Unified Logistics Command." Today, however, the three managers operate basically as originally established. It seems timely to move aggressively to achieve the further economies of consolidation and single management in this area of logistics support.

5. Fifth, Use Both Wholesale and Retail Inventories of Parts More Effectively

Since 1974 GAO has been emphasizing the need to have visibility and interchangeability in stocks held both at major depots ("wholesale levels") and at using installations ("retail levels") such as shipyards, bases, and operating activities.

The obvious advantage is to reduce total inventory investment and obtain better utilization of assets. Our studies have continued to demonstrate the importance of this management practice:

--A report issued in June 1980 on shipyard inventories found that parts valued at \$5.3 million had been purchased by the Navy, while the Philadelphia Naval Shipyard had identical items excess to its inventory needs.

--A report issued in January 1979 showed that the Air Force was spending unnecessary millions of dollars to repair parts when more than sufficient quantities of serviceable items were already available. We first reported this finding in

1964 and the Air Force Audit Agency has repeatedly confirmed that millions of dollars can be saved if appropriate management attention is applied.

--In January, 1979, in a similar study we reported that the Army could save some \$18 million by utilizing serviceable parts which were then in overstock or excess, instead of repairing them, based on tests conducted at just two Army depots.

Three GAO reports dealing with the need to integrate wholesale and retail logistics are as follows:

- LCD 80-70 dated June 17, 1980 "Navy Has Opportunities To Reduce Ship Overhaul Costs"
- LCD 72-205 dated January 31, 1979 "Air Force Continues To Repair Parts When Serviceable Parts Are Available"
- LCD 79-205 dated January 31, 1979 "The Army Should Use Available Serviceable Parts To Avoid Repairs"

6. Sixth, Avoid Excessive Aircraft Requirements To Support Noncombat Missions

GAO report of July 22, 1980, recommended that Congress require budget justification of aircraft for noncombat missions. This is a summary report bringing together the results of numerous previous studies covering the F-14, F-15, F-16, F-18, and A-10 aircraft used for training, peacetime attrition, and backup during depot maintenance. We found that the requirements for these noncombat mission-related aircraft was being justified on the basis of data which was outdated, inflated, and unsubstantiated—or which did not recognize improvement in maintenance technology and support concepts. Potential investment savings revealed in these several studies accumulate to almost \$7 billion through the FY 1985 time period. This reduction can be achieved without effecting force readiness. Urgent action is needed.

The Defense Audit Service has confirmed these excessive requirements on the part of the Air Force and the Navy. While the Services have consistently disagreed with these analyses, our continuing tests confirm the facts and we have urged that Congress withhold appropriations until the Secretary of Defense provides full justification.

Three GAO reports dealing with the need to avoid excessive aircraft requirements to support noncombat missions are as follows:

- LCD 80-83 dated July 23, 1980 "The Congress Should Require Broader Justification of Aircraft For Noncombat Missions"
- LCD 79-42 dated May 22, 1979, "Plan Procurement of F-15 and F-14 Aircraft Where Noncombat Needs Are Excessive"
- LCD 77-423 dated October 28, 1977 "Need To Strengthen Justification and Approval Process For Military Aircraft Used For Training, Replacement, and Overhaul"

7. Seventh, Consider Life Cycle Logistics Requirements During The Weapon Design Stage To Save Hundreds of Millions of Dollars of Unneeded Costs

On newer systems far better attention is being given to the concept of "integrated logistics support," but even stronger Secretary of Defense emphasis is needed. Two examples of current opportunities which have been reported in calendar year 1980 are the following:

--On the Navy's F/A-18, efficiencies of size can be achieved by increasing the number of aircraft in the squadron and decreasing the number of individual squadrons to be supported. Savings of over \$100 million annually in personnel and equipment costs have been identified. Further, more effective use of pilot simulators can reduce program costs by \$95 million.

--A number of opportunities exist to consider more economical support concepts for the F-16. Since this is a multi-national fighter being used by the NATO countries, there is an opportunity not only to centralize our needs, but also to build on host nation support. One example--reduction in the intermediate maintenance equipment--would save an estimated \$56 million.

The rich opportunities available in this early planning approach will be the subject of two new reports shortly to be issued--one on the XM-1 tank and the other on the FFG guided missile frigate.

GAO report LCD 80-65 dated June 6, 1980 "Operational and Support Costs of the Navy's F/A-18 Can Be Substantially Reduced"

GAO report LCD 80-89 dated August 20 1980 "F-16 Integrated Logistics Support: Still Time To Consider Economical Alternatives"

FOR FURTHER INFORMATION

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## MAJOR PROCUREMENT ECONOMIES

Four opportunities need Congressional and Secretary of Defense attention:

1. First, Weapon System Funding Should Be Consistent and Better Managed

In our discussions of acquiring major weapon systems with Government and industry officials, the inadequacy and inconsistency of funding these programs comes to the forefront as a major problem. It causes delays and cost growth in the programs, and a myriad of other significant management problems. Additional unit costs in the magnitude of 10 to 30 percent have been estimated to be the result. The Commander, Air Force Systems Command, recently testified before the House Armed Services Committee that his current annual investment costs could be reduced by up to \$1 billion, if funding could be more consistent and better managed.

The funding problem has its roots in inadequate analyses of the agencies' missions to determine their true needs and priorities, inconsistency of support over the life span of many programs, a constant shifting of priorities and funding between programs each year, and the inability to make decisions on a pure business basis due to the need to consider political, social, and other goals external to the military need. As discussed in item 2 below, multi-year contracting is also a key concern.

All the above result in ill-planned and poorly-executed program management fostering inadequate or insufficient research and development, and inefficient production rates which contribute to increased program costs and cost overruns.

Our report of February 20, 1979, pointed out that the Defense components were not placing enough effort into analyzing their missions and determining their needs, particularly with joint Service effort. A recent GAO survey found this condition still exists. Our report dated October 10, 1980, on the C-X aircraft program pointed out the Air Force was pressing ahead with contractual activities for the C-X aircraft despite not having complied with a Congressional request to first complete a strategic mobility requirements study. The present haste with the C-X could bring about a repeat of the cost growth and performance problems of the C-5 program.

We recommended in our report to the Chairman of the Senate Budget Committee on September 25, 1979, that Congress and the Administration should take a more businesslike approach to weapon acquisition by establishing a mutually agreed upon systems acquisition strategy wherein each program's progress would be reviewed by the Congress at each major milestone rather than the present repetitive yearly Presidential budget reviews. This would be supported by adequate multi-year contracting authorizations that would provide the funding stability so severely lacking in many programs today as outlined below. Adoption of the milestone review would lessen Congress' annual workload and focus its attention at the critical points; i.e., when the need is reconfirmed and the thresholds of progress are measured.

It is strongly urged that the Secretary of Defense charge the Under Secretary of Defense, Research and Engineering, with vigorous leadership in resolving the problems described briefly above and in the reports cited.

GAO Report 79-9, dated February 20, 1979, "Observations on Office of Management and Budget Circular A-109--Major Systems Acquisitions by Department of Defense"

GAO Report PSAD 81-8, dated October 10, 1980, "Department of Defense Should Resolve Certain Issues Concerning the C-X Aircraft Before Requesting Proposals"

GAO Report 79-106, dated September 25, 1979, "Reviewing the Department of Defense Implementation of Procurement Reforms"

2. Second, Multi-Year Contracting Is An Idea Whose Time Has Come

Because of statutory restrictions and a general reluctance on the part of the Congress, substantial potential savings which would be available through multi-year contracting have not been realized. This technique is crucial to achieving the kinds of savings cited earlier.

In the acquisition of major weapons systems, the "up front" commitment to a program, demonstrated through multi-year contracting, produces program stability and permits economical production quantities to be scheduled. These factors, in turn, provide the incentive to a contractor to invest in labor saving capital equipment that produces cost reductions and increases productivity. Further, more total units of equipment can be procured at the same total cost.

Savings resulting from utilizing multi-year contracting are not limited to major acquisitions. The estimated range of 10 to 30 percent we find is also likely to be realized in the procurement of supplies and services. Commercial type commodities such as copying equipment much of which is

now leased at a very high cost to the Government. Multi-year procurement authority in such cases would open the possibility of increasing initial competition because of the assurance of business continuation over a several-year period (such as 3 to 5 years). Similar to major acquisition procurements, the stability resulting from multi-year contracting provides an incentive to contractors to make labor saving capital investments and develop efficient means of producing supplies or delivering services. Additionally, using multi-year contracting might attract more small and minority owned businesses to participate in Government procurement. Today the uncertainties of future business inherent in the annual procurement process discourage such entities from participating either because they are reluctant or unable to make capital investments they have no assurance of recovering.

GAO has long advocated, in reports and testimony before Congressional committees, the adoption of multi-year contracting. We believe that the Defense Department should take the initiative, by concrete case-by-case documentation of the savings opportunities in its annual budget presentation, to focus action attention on this long overdue improvement in the business of procurement. It is hoped that the Secretary of Defense will be joined by the Director of OMB in strongly supporting this reform in the appropriation process.

3. Third, Lower Cost Alternatives Should Be Examined Before the Secretary of Defense and the Congress Approve New Systems

GAO believes that the sophistication of many weapon systems deployed today is one of the contributing factors that has led to budget problems, inventory shortfalls, and a low state of readiness for certain combat categories.

High technology, sophisticated, complex weapon systems by themselves do not automatically create readiness problems. They do, however, set the stage. Other influences include high performance demands, inadequate testing of systems, design deficiencies, supply issues, maintenance issues, logistics concepts, management, and training. Numerous examples are cited in our report of June 30, 1980.

GAO has not advocated that Defense elements do anything which would tend to lessen any technological advantages currently existing, or that Defense use cheap or simple weapons in quantity as substitutes for more costly, more capable equipment. However, GAO believes that, although high performance systems adequate to meet the threat must be acquired, a much better balance between performance and reliability must be obtained.

Initial concerns on this issue began in the late 1960s as the unit cost of equipment increased significantly due to the introduction of highly complex and sophisticated equipment. The cost, quantities, reliability, availability, and maintainability of many highly sophisticated systems deployed in the early 1970s confirmed the seriousness of problems resulting from emphasis on performance.

## INCREASE IN IRS RESOURCES

### GAO SUPPLEMENTARY DISCUSSION

GAO Views: As CBO maintains, giving IRS the resources to implement a 100 percent matching program would produce a substantial yield. Available information indicates, however, that both the additional resources needed and resultant yield are less than CBO estimates.

We have reported that document matching is a powerful tool for detecting on a mass scale taxpayers who underreport (underreporters) or do not report their income (tax return nonfilers). Congressional opposition to the President's proposal for tax withholding on interest and dividend payments has been principally based on the fact that IRS already had but was not using an available tool (document matching) to insure that taxes were paid on such earnings. IRS has made considerable progress in using that tool, but 128 million (or about 24 percent) of the documents received for tax year 1978 were not used, mostly because they were received by IRS on paper instead of computer tapes. IRS maintains that it needs increased staff resources to transcribe the paper information documents not now used and to work the resultant increase in tax cases.

In our October 1, 1980, testimony we noted that IRS' current level (25 percent) of paper document processing would result in 76 percent of all information documents received being matched at a cost of \$85 million. This will yield \$483 million or \$5.70 for each dollar spent. At the 100 percent level, \$125 million would be required which would return \$590 million to the Treasury for a yield of \$4.70 for each dollar spent. Thus, IRS requires \$40 million in additional resources to reach the 100 percent level. This would provide a total increase in yield of \$107 million.

CBO's estimate that increasing IRS' resources by \$100 million would generate an additional \$400 million in revenue may be overstated. Available information only supports that rate of return for expenditure of the first \$40 million. What the yield would be from the balance of the proposed \$100 million depends on how IRS would use it.

Apparently CBO's estimates include resources for some improvements, beyond what IRS anticipates under a 100 percent matching program, in the number and quality of underreporter and nonfiler cases worked by IRS. In our July 1979 report on nonfilers we pointed out that various improvements could be made in how IRS selects which cases to work and the quality of the investigations. We made no estimate, however, as to the additional revenue these improvements would produce.

CBO's estimates may also be based upon some further improvements in the level of documents actually matched under a 100 percent program. (IRS estimates that 93 percent of the documents received would actually be matched under such a program; some documents simply are unusable.) In this regard, we have made the following points in our July and September 1979 and October 1980 testimony and in our October 1980 report:

--IRS does have sufficient computer capacity to process all information documents.

--Potential does exist to improve the current manual transcription of information through automation, possibly through use of optical scanning equipment along the lines of the Social Security Administration's processing of withholding (form W-2) documents.

--IRS should improve its efforts to increase the number and improve the quality of documents filed by payers on computer tapes, since they cost much less to process.

--IRS needs to ensure that it is effectively and economically dealing with the fact that many information documents are submitted without a taxpayer identification number or with an incorrect number. In this regard we found that (1) no data exists to show whether current efforts to obtain the correct number are cost beneficial and (2) IRS generally does not assess penalties on payers who submit documents lacking the taxpayer identification number.

It should also be noted that the document matching program covers types of income other than interest and dividends; e.g., wages. The cost and yield figures used by CBO and IRS seem to pertain to the total program and not exclusively to interest and dividends.

Relevant GAO Reports: GGD-79-69, July 11, 1979.  
Testimony of Allen R. Voss on IRS' efforts to detect and pursue nonfilers and underreporters; July 16, 1979.  
Testimony of Richard L. Fogel on the subterranean economy; September 6, 1979.  
Testimony of William Anderson on IRS' document matching program; October 1, 1980.  
FGMSD-81-4, Oct. 20, 1980.

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STRENGTHENING OF AGENCY DEBT COLLECTION ACTIVITIES

	Annual Revenue Effect (millions of dollars)					Cumulative Five-Year Effect
	1982	1983	1984	1985	1986	
<b>CBO Baseline</b>						
Increased Revenue	1,700	2,400	1,900	1,600	1,300	8,900
Additional expenditures	<u>-100</u>	<u>-100</u>	<u>-100</u>	<u>-100</u>	<u>-100</u>	<u>-500</u>
Net Increase	1,600	2,300	1,800	1,500	1,200	8,400
<b>Carter Budget</b>						
Increased Revenue	115	115	115	115	115	575
Additional expenditures	<u>-15</u>	<u>-15</u>	<u>-15</u>	<u>-15</u>	<u>-15</u>	<u>-75</u>
Net Increase	100	100	100	100	100	500

NOTE: Preliminary estimates, subject to change.

Back taxes owed to the federal government, and other debts past due by more than 90 days, amounted to about \$20 billion at the end of fiscal year 1979. Such delinquencies represent about 40 percent of current federal accounts receivable. The many federal agencies responsible for collecting these debts follow inconsistent practices in reporting delinquencies to commercial credit bureaus, imposing interest or penalties on overdue accounts, establishing adequate reporting and debt management systems, and allocating resources to debt collection activities. Significant budgetary savings could be achieved by strengthening agency collection activities.

The General Accounting Office supports legislation to clarify federal agency debt collection powers and remedies, including: disclosure of delinquencies to commercial credit bureaus, a direct role for agencies in debt litigation, more adequate interest rates on overdue accounts, application of Internal Revenue Service (IRS) refunds against nontax debts owed the government, and garnishment of federal salaries.

Those who oppose more vigorous debt collection activity by the government have expressed concern over the invasion of privacy, doubts about the practicality of collecting debts from low-income persons, and fear of the potential abuse of centralized financial records. Also, such an effort would require either increasing appropriations to the various agencies or reducing resources allocated to other public purposes.

Any estimate of the increases in federal receipts that might result from better management of federal debt collection activity is subject to considerable uncertainty. The collection estimates provided in the table assume savings from accelerated collection of outstanding debt, reduced debt write-offs, and some avoidance of future debt. The cumulative savings estimate of \$8.4 billion may be conservative, and could perhaps be achieved by increasing resources and improving agency collection procedures, without relying on IRS offsets or the garnishment of federal salaries.

President Carter's budget recommendations for fiscal year 1982 include a similar proposal, but at a much lower level of effort than that assumed in the CBO baseline. This accounts for the differences in the projected debt collections.

## STRENGTHENING OF AGENCY DEBT COLLECTION ACTIVITIES

### GAO Supplementary Discussion

GAO Views: GAO has issued several reports to the Congress and testified before various Congressional committees on the need for Federal agencies to improve their debt collection efforts. GAO found that there are two basic reasons why debt collection in the Federal Government has not kept pace with the increasing number of debts. First, many agencies have not been aggressive in pursuing collection. Second, present collection methods are expensive, slow, and ineffective when compared with commercial practices. In addition, presently if a debtor does not repay a debt owed the Government there is no stigma attached to the debtor. Whereas, in the private sector the individual's credit rating could be affected.

We have identified specific weaknesses in debt collection programs and have recommended a number of specific corrective actions to improve the recording, and collection of debts in the Government. Unfortunately, our recommendations have not always been implemented by the agencies. In addition, we concluded that top management does not devote sufficient attention to the collection of outstanding debts. In our view, they have been more concerned with delivering services and disbursing funds. Debt collection has received a low priority with only limited personnel often involved in the collection of these debts.

We have been actively working with the Congress, seeking legislation that will facilitate the Government ability to collect debts. We supported the proposed Debt Collection Act of 1980 (S.3160) as well as the proposed Debt Collection Practices Improvements Act of 1980 (S.3246). The latter bill has been reintroduced in the current session as S-42.

Recently, legislation was enacted that will exempt credit bureaus from the Privacy Act for certain Veterans Administration (Public Law 96-466) and Department of Education (Public Law 96-374) debts. We supported that legislation; however, we would have preferred legislation providing such exemptions for all Government agencies, as is provided by Senate bill 3160. In conjunction with a review of Veterans Administration collection activities, we demonstrated the feasibility of reporting Federal debts to a credit bureau. Our analysis shows that making the delinquent status of debts a matter of record with a credit bureau provides incentive for payment because prospective grantors of new credit are likely to consider credit history before extending credit. Our experience in reporting delinquent debts to credit bureaus has reinforced our belief that it is an effective tool for strengthening Government collection programs.

Another way of collecting many delinquent debts is for the Government to reduce or withhold future payments or benefits from the debtor through the use of offset.

GAO has not formally projected potential earnings that can result through improved debt collection. However, if Federal agencies were permitted to use IRS offset, garnishment of Federal salaries, and selected private sector practices, substantial amounts could be collected.

Relevant GAO Reports. FGMSD-78-59, FGMSD-78-61, FGMSD-79-19, HRD-79-21, HRD-79-31, CD-80-1, FGMSD-80-46, FGMSD-80-68 and HRD-81-5.

Contact: John F. Simonette; 275-1581

CHAPTER 2

ADDITIONAL COST-SAVING AREAS



SERVICE CONTRACT ACT SHOULD NOT APPLY TO SERVICE EMPLOYEES OF ADP AND HIGH-  
TECHNOLOGY COMPANIES

The Service Contract Act of 1965 protects workers' wages on Federal contracts when the contract's principal purpose is to provide services in the United States using service employees. For contracts over \$2,500, the minimum wages and fringe benefits must be based on rates the Secretary of Labor determines as prevailing for service employees in the locality.

On June 5, 1979, the Department of Labor ruled that all Federal contracts for the maintenance and repair of ADP, telecommunications and other high-technology equipment are subject to the wage determination and other requirements of the act. Previously, Federal contracting agencies had not considered these contracts to be subject to the act.

We believe that the act was not intended to cover maintenance services related to commercial products acquired by the Government. Also, Labor made no feasibility, cost/benefit, or impact studies to support its ruling.

We said that Labor's decision to enforce the act's coverage would adversely affect operations in the ADP, office equipment, and other scientific and high-technology industries. The ruling will impose an undue financial and administrative burden on the affected companies and that industry compliance would be counterproductive and costly. Furthermore, wage protection for these service workers is not needed.

The most serious concerns presented by the 18 corporations we contacted were that Labor's decision would eventually

- increase the administrative burdens and operating costs of each corporation and
- hinder employee productivity and morale by disrupting merit pay systems and staff assignment practices.

In addition, several corporations stressed the inflationary impact Labor's wage determinations could have on the industries' wage rates.

One corporation said a new system estimated to cost almost \$1 million would be needed to track data on employees servicing approximately 700,000 machines within the Government. Another corporation estimated that the cost to develop and implement new data processing systems and modify existing systems would be \$1.5 to \$2 million. A third corporation estimated the cost to design, develop, and install its system at over \$1 million, with annual maintenance costs of \$250,000.

The first corporation also stated that, to maintain its merit pay system and still comply with the act, a separate work force would have to be created for the Federal contracts. To do this, the corporation estimated it would incur developmental and implementation costs of \$9.35 million—including the almost \$1 million for a new system—and annual recurring costs of \$3.3 million.

One corporation said the first-year inflationary impact on its field service technician wages would be \$648,000. Another corporation estimated the impact at \$12 million. A third and much larger corporation said the inflationary impact on technician wages would be \$100 million the first year.

We obtained information on the act's application at 114 Federal agency installations. At 42 of the installations, contracting difficulties developed because contractors refused to accept contracts subject to the act.

At 21 of the installations, agencies also attempted or considered attempting to acquire maintenance services through third-party contractors—firms other than the original equipment manufacturers. Some third-party arrangements proved successful; others did not.

One Army installation had to permanently shut down its \$12 million computer system because the sole-source contractor would not accept a follow-on maintenance contract containing Service Contract Act provisions. The system is expected to be scrapped, and replacement computer services are being obtained from sources at much higher cost and considerable inconvenience.

Various Federal officials cited other impacts they believe would occur if maintenance and repair services under existing contracts expiring during fiscal year 1980 were discontinued and could not be renewed. These included

(1) complete stoppage of the space shuttle program, (2) inability to monitor and record vital signs of critically ill or postsurgical patients at a veterans' medical center, (3) loss of support to U.S. Army Health Service Command activities throughout the world, (4) delay or shutdown of test and research programs on the F-15 and F-16 fighters and B-1 bomber, and (5) serious programmatic impact on the design, development, test, production, and retirement of nuclear weapons.

We recommended that the Congress amend the Service Contract Act to make it clear that the act excludes coverage for ADP and other high-technology commercial product--support services--i.e., services the Government procures based on established market prices of commercial services sold in substantial quantities to the public.

Pending such action by the Congress and to avoid further serious impairment to the conduct of Government business, the Secretary of Labor should temporarily exempt from the act's coverage certain contracts and contract specifications for ADP and other high-technology commercial product support services.

Relevant GAO Report

Service Contract Act Should Not Apply to Service Employees of ADP and High-Technology Companies (HRD-80-102, 9/16/80).

FOR FURTHER INFORMATION

CONTACT: Gregory J. Ahart, 275-5470

Title: Review of the Use of Court Reporters

Our survey of Federal court transcript production practices indicates that the Judiciary can save \$10 million annually by phasing out its use of court reporters and instead using electronic recording equipment and transcribers to record judicial proceedings and prepare transcripts. By taking the added step of recovering its remaining cost (approximately \$10 million) from parties requesting transcripts, the Judiciary would net out paying nothing and the parties requesting transcripts would still pay about 30 percent lower transcript fees than they now pay to court reporters. The lower fees would enable the Government to save \$600,000 annually for transcripts required under the Criminal Justice Act and \$2 million annually for transcripts required by the Justice Department attorneys.

FOR FURTHER INFORMATION

CONTACT: William J. Anderson, 275-5106

Modification in Payment In  
Lieu of Taxes Programs

GAO Supplementary Discussion

GAO Views

GAO has called for a change in the method of payment under the various land payment programs. We believe that the most logical rational among the alternative payment programs is tax equivalency. Such change should eliminate the permanent earning-ly of receipts, set an expiration date on program authorization and require periodic appropriation action.

Additional changes should be made to the act which would correct the practice that allows States to influence the size of Federal payments to local governments resulting from the payment formula which provides that only selected receipt-sharing payments are used to reduce payments under the payment-in-lieu-of taxes program.

We also call for the change in provision of the law that allows additional payments to counties that are already being compensated under receipt sharing programs. We are recommending that minimum payment provision be deleted as well as deletion of certain special provision for grant lands.

By causing this change there should be substantial savings to the Federal Government.

Relevant GAO Reports

PAD-79-64, September 25, 1979; B-167553 July 24, 1980.

GAO Contact

Roy Jenney, 275-1827.

## Federal Compensation Reform - Additional Work

### Proposals for Improving the Management of Federal Travel

For fiscal year 1980 the Government spent more than \$3 billion on travel. While travel is vital to effective program implementation, frequent instances of questionable and costly travel provoke questions on the ways in which travel is managed. Budgets are essentially based on past levels of travel expenditures. The lack of accurate data on the cost and purposes of travel can make travel budgets unreliable and travel unmanageable.

Despite previous GAO recommendations that agencies develop more accurate data on the cost and purposes of travel, agencies have not taken appropriate action. Thus administration officials often do not know how travel money is being spent.

Agencies' requests for travel funds for fiscal year 1981 are inflated because the President's 1981 budget did not reflect all of the reductions in 1980 travel mandated by the Congress. The timing of the reduction forced the Office of Management and Budget to apportion the reduction among executive branch agencies too late for the agencies to consider the lower fiscal year 1980 spending levels when making their estimates for fiscal year 1981.

Different statutes establish travel entitlements for civilian and uniformed personnel, and different authorities write rules for travel. As a result, civilian and uniformed travelers receive different entitlements for similar travel. Differences also occur when the Congress does not simultaneously raise the per diem ceilings for the two groups. Even when the ceilings are identical, the General Services Administration and the Per Diem, Travel, and Transportation Allowance Committee have often established different per diem entitlements, resulting in different per diem allowances for civilian and uniformed travelers going to the same location. The difference may result in uniformed personnel receiving as much as \$25 a day more than civilian employees.

Because of its concern about travel abuses and in an effort to control costs, the Congress cut the fiscal year 1980 travel and transportation funds requested in the President's budget by \$500 million. This congressional action

reduced the fiscal year 1980 travel and transportation budget to \$8 billion (about \$3 billion for travel and \$5 billion for transportation).

GAO recommended that the Director, Office of Management and Budget, after consulting with appropriate congressional committees, revise budget guidelines to

- focus more specifically on the purpose of each kind of travel and require heads of departments and agencies to revise their reporting and budgeting systems accordingly and
- require that agency Inspectors General and internal auditors periodically test the accuracy of travel cost reporting.

Also, GAO recommended that the Director bring to the attention of top agency officials the agency managers' lack of compliance with Federal travel policies and direct the top officials to make sure managers follow these policies.

In addition to the actions needing to be taken by the Director, OMB, GAO recommended that the Secretary of Agriculture

- restrict the use of general travel authorizations to those employees whose work requires frequent routine temporary-duty travel and
- require written authorization for all other travel.

Also, the Secretary of Defense should propose a legislative package to make travel reimbursements more equitable between civilian and military personnel.

The Office of Management and Budget did not agree with GAO's recommendation that it revise its budget guidelines to focus more specifically on the purpose of each kind of travel. GAO continues to believe that the congressional appropriations and oversight committees and agency managers could benefit from additional data on the purposes of travel.

The Department of Agriculture disagreed with our recommendation concerning the use of general travel authorizations but said it will study certain types of travel to determine if those types could be more effectively controlled by individual trip authorizations. GAO continues to believe that Agriculture should restrict the use of general travel authorizations because the loose authorization procedures which the general authorization permits weaken the Department's ability to effectively manage travel.

The Department of Defense agreed with GAO's recommendation to propose a legislative package to make travel reimbursements more equitable.

Relevant GAO Reports. FPCD-81-13, December 24, 1980; FPCD-77-11, March 17, 1977; FPCD-77-84, October 28, 1977.

Contact. Thomas Eickmeyer, 275-5938

LIBERAL DEPOSIT REQUIREMENTS OF  
STATES' SOCIAL SECURITY CONTRIBUTIONS  
ADVERSELY AFFECTED TRUST FUNDS  
(HRD-79-14, Dec. 18, 1978)

Section 218 of the Social Security Act (42 U.S.C. 418) authorized voluntary agreements between HEW and the States under which the employees of States and their political subdivisions are provided Federal Old-Age, Survivors, and Disability Insurance benefits under title II of the Social Security Act. Section 218(i) of the act requires that HEW's regulations for administration of voluntary agreements be designed to make the requirements imposed on States the same, so far as practicable, as those imposed on private employers. Notwithstanding this requirement, HEW was permitting the States to make quarterly deposits of Social Security taxes 1 month and 15 days after the end of each calendar quarter for covered State and local government employees even though private employers were required to deposit Social Security and withheld income taxes weekly, semimonthly, biweekly, or monthly--depending on the amount of taxes withheld. Further, HEW's deposit requirement was more lenient than the Internal Revenue Service's requirement. Most State agencies and local governments we visited were required to remit withheld income taxes to the Internal Revenue Service within 3 banking days after each quarter-monthly period in which a payday occurred (7th, 15th, 22d, and last day of the month).

The Social Security trust funds could have earned about \$1.1 billion in additional interest from 1961-79 had States been required to deposit taxes more frequently--monthly instead of quarterly--thus making the funds available to the trust funds for earlier investment. If the quarterly deposit requirements were continued, we estimated that about \$1.2 billion in interest would be lost during the 5-year period 1980-84.

On March 30, 1978, HEW published in the Federal Register a proposed rule to require States to make monthly deposits of Social Security taxes 15 days after the end of each month (referred to as the 15-15-15 proposal). On November 20, 1978, HEW revised its proposal to require States to deposit taxes for each of the first 2 months of a calendar quarter by the 15th day after each month, but taxes for the third month of a quarter would not be due until 1 month and 15 days after the end of the third month (referred to as the 15-15-45 proposal).

The States' primary objection to more frequent deposits was the loss of interest earned and cash flow on Social Security taxes from the time employees are paid until deposits are made. We stated that any such financial assistance to the States should be specifically legislated and not provided at the expense of the Social Security trust funds. We recommended that the Secretary of HEW reconsider the decision to implement the 15-15-45 proposal, and we urged that semimonthly or biweekly deposits be required. At a minimum, we suggested that HEW's original 15-15-15 proposal would be a viable alternative.

On June 9, 1980, the Social Security Disability Amendments of 1980 (Public Law 96-265) were approved, which mandate a 30-30-30 requirement, i.e., States must deposit Social Security taxes within the 30-day period following the last day of each month. This requirement is more lenient than HEW's original (15-15-15) or revised (15-15-45) proposals. The Senate Committee on Finance report (S. Rept. 96-408) states that the 30-30-30 requirement was intended to ease the transition to HEW's 15-15-45 proposal. However, by enacting the 30-30-30 requirement into law, HHS will be precluded from making a transition into any other deposit requirement unless the Congress amends the law.

As shown below, changing the quarterly deposit requirement to the 30-30-30 requirement will result in an estimated \$1.4 billion in additional interest revenues to the Social Security trust funds during fiscal years 1981-85. However, if as we urged, semimonthly or biweekly deposits were required and assuming that this requirement were effective beginning with fiscal year 1982, the trust funds could earn about \$339 million more in interest than under the 30-30-30 requirement during fiscal years 1982-85.

Estimated Additional Interest Income That  
Could Be Earned by the Trust Funds Over  
Previous Deposit Requirements

Fiscal year	Deposit requirements		Difference Semimonthly/ 30-30-30- requirement
	Semimonthly	30-30-30-requirement	
(millions)			
1981	\$ -	\$ 154	\$ -
1982	284	235	49
1983	367	286	81
1984	432	337	95
1985	526	412	114
Total	<u>\$1,609</u>	<u>\$1,424</u>	<u>\$339</u>

Recommendation to the Congress

We recommend that the Congress amend the Social Security Act to require States to deposit Social Security taxes semi-monthly or biweekly. We also recommend that the Congress consider requiring States to deposit Social Security taxes using the same schedule that States now use to deposit withheld income taxes. Such a requirement would enable the trust funds to earn additional interest income over the \$339 million which could be earned by requiring remittances semimonthly or biweekly.

FOR FURTHER INFORMATION

CONTACT: Gregory J. Ahart, 275-5470

LEGISLATION ON SIZING MILITARY MEDICAL FACILITIES NEEDED TO CORRECT IMPROPER PRACTICES, SAVE MONEY, AND RESOLVE POLICY CONFLICTS (HRD-81-24, December 17, 1980)

Since the size of new military hospitals and clinics has a direct effect on their costs of construction and operation, the methods and assumptions used to determine appropriate sizes for these facilities are crucial. A key consideration in determining the size of these facilities is the extent to which space is needed for retirees and dependents of retired and deceased members. This factor has important policy implications because it will affect (1) the cost of constructing and operating medical facilities in the future and (2) the medical benefits available to military beneficiaries.

The Department of Defense (DOD) received about \$63 million in fiscal year 1980 to replace or renovate existing medical facilities or construct new ones and requested about \$248 million in fiscal year 1981. DOD spent about \$2.6 billion to operate its medical facilities in fiscal year 1979.

FINDINGS/CONCLUSIONS: GAO believes DOD should have the flexibility to plan the size of new military hospitals and clinics based on considerations of (1) cost effectiveness, (2) staff availability, (3) realistic workload projections, and (4) teaching and training requirements. Under existing legislation and current DOD instructions, only teaching and training requirements are considered in planning space for retirees and dependents of retired and deceased members in new or replacement medical facilities. New legislation could

--correct the services' current improper sizing practices,

--save money in the long run, and

--align the sizing policy with the policy for providing staff and other medical resources to facilities once they are built.

**RECOMMENDATIONS:** Because of the advantages to be gained from a new policy on sizing military medical facilities--correction of improper sizing practices by the military services, life-cycle cost savings, and reconciliation of currently conflicting policies--GAO recommends that the Congress amend title 10, section 1087, U.S. Code, to allow for the sizing of military medical facilities based on (1) cost effectiveness, (2) projected staff availability, (3) realistic workload.

Pending enactment of new legislation, the Secretary of Defense should:

--Direct the Secretaries of the Army, Navy, and Air Force to uniformly apply the current size limitations to both inpatient and outpatient facilities when programing space in new hospitals and clinics.

--Review the 5- and 10-percent factors used in sizing military medical facilities, as suggested in the conference report on the military construction appropriations bill for fiscal year 1977, to determine if these percentages are still valid for meeting teaching and training requirements.

--Consider, as part of the review, whether the 5- and 10-percent factors are the most appropriate factors to apply to outpatient and inpatient facilities.

--Revise DOD Instruction 6015.16, as necessary, based on the results of the review of the 5- and 10-percent factors.

If the Congress modifies the law in accordance with GAO's recommendation, DOD will need to develop a new sizing method which programs space in new or replacement medical facilities based on these four limitations:

--Life-cycle cost effectiveness.

--Projected staff availability.

--Realistic workload projections.

--Teaching and training requirements.

Each of the four limitations will generally lead to a different size estimate, requiring DOD to select the most appropriate one. This report describes how this can be done.

For further information

Contact: Gregory J. Ahart, 275-5470

GAO'S COST CONTAINMENT PROPOSALS IN THE DEFENSE AREA



SUMMARY OF THE PROPOSED AGENDA  
OF SIGNIFICANT MANAGEMENT IMPROVEMENTS AND  
COST REDUCTION OPPORTUNITIES

1. Consolidate military base support<sup>2</sup> activities to produce several hundred million dollars of savings annually.
2. Complete the excellent work already begun in consolidating supply activities. Inventory reductions of at least \$350 million appear possible.
3. Begin now to establish single management of aircraft depot maintenance. If savings of only 10% are realized this would produce annual economies of \$200 million.
4. Further application of single management concept to Transportation should be considered.
5. Use both wholesale and retail inventories more effectively. Test audits reveal potential for savings of many millions of dollars annually.
6. Avoid excessive aircraft requirements to support noncombat missions. Savings of up to \$7 billion in investment costs, now scheduled through FY 1985, appear possible.
7. Consider life cycle logistics requirements during the weapon design stage, to save hundreds of millions of dollars of unneeded costs.
8. Weapon system funding should be consistent and better managed.
9. Multi-year contracting is an idea whose time has come. Air Force alone estimates reductions in investment costs of \$1 billion on six programs.
10. Lower cost alternatives should be examined before the Secretary of Defense and the Congress approve new systems.
11. Impediments to reducing the costs of weapon systems should be a prime concern of the Secretary of Defense.
12. Military pay reforms have been debated for two decades with very disappointing progress. New leadership is needed.
13. Many issues confront the Military retirement system and its financial soundness. Postponement of decisions now may spell disaster later.
14. The enlisted force composition needed for the future should be thoroughly evaluated. Action on these long overdue reforms is lagging.
15. Use of more civilians in morale, welfare, and recreation activities--and reduction in costs of the Military Exchange System--are advocated.
16. Reserve Forces Manpower management needs a fresh approach.

Following is a discussion of each of the above proposals.

LOGISTICAL SUPPORT ECONOMIES:  
SUPPLY, MAINTENANCE, AND DISTRIBUTION

About \$59 billion of the FY 1981 budget will go for that set of functions activities, services, and procurements called "logistics." They are spread across every budget appropriation and are heavily labor-intensive.

While precise goals must be set, it is clear that several billion dollars in annual savings can be achieved by implementation of the several actions discussed below:

1. First, Consolidate Military Base Support Activities

Almost 550,000 personnel—civilian, active duty military and reserves—are assigned to the large variety of essential housekeeping and support tasks needed to keep Defense installations in daily operating condition. These tasks cover property repair and maintenance; police and fire protection; utilities; trash and sewage disposal; base supply and transportation; wharf and air field operation; food services; laundries; and many others.

These services cost an estimated \$12 billion in FY 1978 and continue, of course, to rise with inflation. The opportunities for economy lie in the fact that military installations in the same geographic area frequently do not share these services. Hence, avoidable duplication of staffing and facilities occurs. For example, in the Sacramento, California, area, there are seven major bases within a 60 mile radius. The total population of these bases is approximately 47,000 of which almost 10,000 are in base support functions.

DOD has only timidly approached this opportunity for savings by establishing voluntary and uncoordinated programs. We believe that if a single truly-effective program is to be achieved, the parochial interests of the Services must be sternly put aside. There must be a coordinated, systematic attack on unnecessary base support costs.

The establishment, by directive of the Secretary of Defense, of an authoritative single manager or project director to effect optimum base support economies can, we believe, produce several hundred million dollars of savings annually. It is one of the most obvious—and one of the easiest—sources of true economy which the new Secretary of Defense can achieve.

GAO report LCD 80-92 dated September 9, 1980: "Consolidating Military Base Support Services Could Save Billions"

2. Second, Complete the Excellent Work Already Begun  
In Consolidating Supply Activities

In the 1950s Congress directed DOD to consolidate the purchase, issue and use of common supplies. This was incorporated in the so-called "McCormick-Curtis Amendment" of 1958 which mandated consolidation of support functions and the elimination of duplication.

A series of commodity single managers were established (including medical, clothing, subsistence, industrial, electronics, and general supplies). Each procured, stored, and distributed supply items to the four Services. In 1961 this group was brought together by the then Secretary in an agency known as "The Defense Supply Agency" (DSA) responsible for some two million items of supply. Major reductions in inventory investment and personnel economies quickly ensued. Since then OSD civilian managers have repeatedly advocated further consolidation of consumable items by assigning a remaining 750,000 consumable items for procurement, storage, and issue by the Defense Logistics Agency (the successor to DSA). These OSD officials estimate that \$350 million in inventory investment can be saved. This may be conservative.

It is our understanding that strong resistance of the Services to these long overdue actions continues to postpone the realization of such desirable savings. A firm decision now by the Secretary of Defense would set in motion procedures that would pay handsome dividends in savings within two years.

While the above is the most dramatic opportunity for supply consolidation, there are two others which have been addressed in GAO reports that deserve early consideration:

—Eliminating Marine Corps logistics overlap with other services has already saved several million dollars, but further savings are possible. In response to a GAO report in 1975, the Marine Corps took steps to eliminate duplication of supply activities which other Services could just as efficiently perform for it—achieving immediate savings of about \$65 million. This was realized by reassigning some 157,000 items to other Service agencies for management, thus eliminating separate Marine Corps staff and facilities. However, there are at least another 39,000 items managed by the Marine Corps which the Services or the Defense Logistics Agency could efficiently manage for it. In addition, there are opportunities for the transfer to other Services of duplicative maintenance activities; use of other Services' depot overhaul facilities for selected items; and transfer of war reserve stocks to the storage facilities of other Services.

—Centralized ammunition management is a long-sought goal which has not been fully achieved. In 1973 the central management of conventional ammunition was advocated by GAO. The first steps

were taken by DOD in 1975, by designating the Army as the single manager. Despite this progress, much remains to be done. The current single manager's control is limited even within his own service (the Army). GSD proposed to expand the single manager concept and encountered considerable resistance from the Services. Thus there remain millions of dollars to be saved by installing a single system capable of providing intensive management of this critical commodity. The House Committee on Appropriations has shown continuing interest in this matter. While the Secretary of Defense has agreed in the past that changes are needed to improve this program, he has done little to implement them.

GAO report LCD 80-74 dated June 30, 1980 "Eliminating Marine Corps Logistics Overlap Saves Millions; Further Savings Possible"  
GAO report LCD-80-1 dated November 26, 1979 "Centralized Ammunition Management-- A Goal Not Yet Achieved"

3. Third, Begin Now To Establish Single Management of Aircraft Depot Maintenance

The Department of Defense spends about \$2.5 billion a year on depot maintenance of aircraft. In-house there are 15 depots valued at about \$1.8 billion. New investments in these facilities and their equipment is being made at the rate of some \$65 million annually.

The 15 facilities involved are six in Navy, five in Air Force, and four in Army (including two Electronic Depots). Our study showed that gross in-house capacity exceeds needs by 130 percent; and that DOD is spending as much as \$400 million annually for unused capacity in the aircraft industry.

This problem is massive and complex. A master plan and uniform cost accounting are essential to eliminate unneeded capacity and overheads, and to properly integrate Government-owned and private contractor facilities and capabilities. The savings, while difficult to estimate with precision, would-- if even only 10 percent of current costs--exceed \$200 million annually. We strongly have urged the Secretary of Defense to designate a single manager over aircraft depot maintenance. We are disappointed at the continued refusal of the Department to face up to these opportunities.

In addition to depot level maintenance, our studies show that the Air Force can centralize aircraft component repair in the field with significant savings. The Air Force has successfully centralized repair in selected situations such as the F-4 in the Pacific, engines for the military airlift command, and the C-141/C-5A aircraft overseas. However, these are but a few of many opportunities to economize by eliminating duplicate activities in the U.S. and overseas. The Air Force generally resists these opportunities on

the grounds that the analyses needed to make such changes are complex. However, the economies possible are very attractive and we feel that the Secretary of Air Force should direct that they be identified, starting with centralization of F-15/F-16 component repair overseas and in the U.S.

GAO report LCD 78-406 dated July 12, 1978 "Aircraft Depot Maintenance, A Single Manager Needed to Stop Waste"

GAO report 79-409 dated March 28, 1979 "Centralizing Air Force Aircraft Component Repair In The Field Can Provide Significant Savings"

4. Fourth, Further Application of Single Manager Concept To Transportation Should Be Considered

Since the National Security Act of 1947, Defense designated the Navy to be single manager for ocean transportation (1956); the Air Force to handle airlift service (1956). In 1965 DOD designated the Army to be the single manager for land transportation and common user terminals.

In 1970 the Blue Ribbon Defense Panel established by the then Secretary examined this multi-service approach to transportation. It recommended that transportation be further consolidated under a "Unified Logistics Command." Today, however, the three managers operate basically as originally established. It seems timely to move aggressively to achieve the further economies of consolidation and single-management in this area of logistics support.

5. Fifth, Use Both Wholesale and Retail Inventories of Parts More Effectively

Since 1974 GAO has been emphasizing the need to have visibility and interchangeability in stocks held both at major depots ("wholesale levels") and at using installations ("retail levels") such as shipyards, bases, and operating activities.

The obvious advantage is to reduce total inventory investment and obtain better utilization of assets. Our studies have continued to demonstrate the importance of this management practice:

--A report issued in June 1980 on shipyard inventories found that parts valued at \$5.3 million had been purchased by the Navy, while the Philadelphia Naval Shipyard had identical items excess to its inventory needs.

--A report issued in January 1979 showed that the Air Force was spending unnecessary millions of dollars to repair parts when more than sufficient quantities of serviceable items were already available. We first reported this finding in

1964 and the Air Force Audit Agency has repeatedly confirmed that millions of dollars can be saved if appropriate management attention is applied.

--In January, 1979, in a similar study we reported that the Army could save some \$18 million by utilizing serviceable parts which were then in overstock or excess, instead of repairing them, based on tests conducted at just two Army depots.

Three GAO reports dealing with the need to integrate wholesale and retail logistics are as follows:

- LCD 80-70 dated June 17, 1980 "Navy Has Opportunities To Reduce Ship Overhaul Costs"
- LCD 72-205 dated January 31, 1979 "Air Force Continues To Repair Parts When Serviceable Parts Are Available"
- LCD 79-205 dated January 31, 1979 "The Army Should Use Available Serviceable Parts To Avoid Repairs"

6. Sixth, Avoid Excessive Aircraft Requirements To Support Noncombat Missions

GAO report of July 22, 1980, recommended that Congress require budget justification of aircraft for noncombat missions. This is a summary report bringing together the results of numerous previous studies covering the F-14, F-15, F-16, F-18, and A-10 aircraft used for training, peacetime attrition, and backup during depot maintenance. We found that the requirements for these noncombat mission-related aircraft was being justified on the basis of data which was outdated, inflated, and unsubstantiated--or which did not recognize improvement in maintenance technology and support concepts. Potential investment savings revealed in these several studies accumulate to almost \$7 billion through the FY 1985 time period. This reduction can be achieved without effecting force readiness. Urgent action is needed!

The Defense Audit Service has confirmed these excessive requirements on the part of the Air Force and the Navy. While the Services have consistently disagreed with these analyses, our continuing tests confirm the facts and we have urged that Congress withhold appropriations until the Secretary of Defense provides full justification.

Three GAO reports dealing with the need to avoid excessive aircraft requirements to support noncombat missions are as follows:

- LCD 80-83 dated July 23, 1980 "The Congress Should Require Broader Justification of Aircraft For Noncombat Missions"
- LCD 79-42 dated May 22, 1979, "Plan Procurement of F-15 and F-14 Aircraft Where Noncombat Needs Are Excessive"
- LCD 77-423 dated October 28, 1977 "Need To Strengthen Justification and Approval Process For Military Aircraft Used For Training, Replacement, and Overhaul"

7. Seventh, Consider Life Cycle Logistics Requirements During The Weapon Design Stage To Save Hundreds of Millions of Dollars of Unneeded Costs

On newer systems far better attention is being given to the concept of "integrated logistics support," but even stronger Secretary of Defense emphasis is needed. Two examples of current opportunities which have been reported in calendar year 1980 are the following:

--On the Navy's F/A-18, efficiencies of size can be achieved by increasing the number of aircraft in the squadron and decreasing the number of individual squadrons to be supported. Savings of over \$100 million annually in personnel and equipment costs have been identified. Further, more effective use of pilot simulators can reduce program costs by \$95 million.

--A number of opportunities exist to consider more economical support concepts for the F-16. Since this is a multi-national fighter being used by the NATO countries, there is an opportunity not only to centralize our needs, but also to build on host nation support. One example--reduction in the intermediate maintenance equipment--would save an estimated \$56 million.

The rich opportunities available in this early planning approach will be the subject of two new reports shortly to be issued--one on the XM-1 tank and the other on the FFG guided missile frigate.

GAO report LCD 80-65 dated June 6, 1980 "Operational and Support Costs of the Navy's F/A-18 Can Be Substantially Reduced"

GAO report LCD 80-89 dated August 20 1980 "F-16 Integrated Logistics Support: Still Time To Consider Economical Alternatives"

FOR FURTHER INFORMATION

CONTACT: Walton H. Sheley, Jr., 275-3456

## MAJOR PROCUREMENT ECONOMIES

Four opportunities need Congressional and Secretary of Defense attention:

1. First, Weapon System Funding Should Be Consistent and Better Managed

In our discussions of acquiring major weapon systems with Government and industry officials, the inadequacy and inconsistency of funding these programs comes to the forefront as a major problem. It causes delays and cost growth in the programs, and a myriad of other significant management problems. Additional unit costs in the magnitude of 10 to 30 percent have been estimated to be the result. The Commander, Air Force Systems Command, recently testified before the House Armed Services Committee that his current annual investment costs could be reduced by up to \$1 billion, if funding could be more consistent and better managed.

The funding problem has its roots in inadequate analyses of the agencies' missions to determine their true needs and priorities, inconsistency of support over the life span of many programs, a constant shifting of priorities and funding between programs each year, and the inability to make decisions on a pure business basis due to the need to consider political, social, and other goals external to the military need. As discussed in item 2 below, multi-year contracting is also a key concern.

All the above result in ill-planned and poorly-executed program management fostering inadequate or insufficient research and development, and inefficient production rates which contribute to increased program costs and cost overruns.

Our report of February 20, 1979, pointed out that the Defense components were not placing enough effort into analyzing their missions and determining their needs, particularly with joint Service effort. A recent GAO survey found this condition still exists. Our report dated October 10, 1980, on the C-X aircraft program pointed out the Air Force was pressing ahead with contractual activities for the C-X aircraft despite not having complied with a Congressional request to first complete a strategic mobility requirements study. The present haste with the C-X could bring about a repeat of the cost growth and performance problems of the C-5 program.

We recommended in our report to the Chairman of the Senate Budget Committee on September 25, 1979, that Congress and the Administration should take a more businesslike approach to weapon acquisition by establishing a mutually agreed upon systems acquisition strategy wherein each program's progress would be reviewed by the Congress at each major milestone rather than the present repetitive yearly Presidential budget reviews. This would be supported by adequate multi-year contracting authorizations that would provide the funding stability so severely lacking in many programs today as outlined below. Adoption of the milestone review would lessen Congress' annual workload and focus its attention at the critical points; i.e., when the need is reconfirmed and the thresholds of progress are measured.

The Department of Defense introduced policies to help overcome these problems. Some development programs in the mid to late 1970s were structured to reflect the intent of the new Defense policies emphasizing larger quantities; lower cost; and better reliability, availability, and maintainability. Most of these programs, however, were initiated in response to direction by the Congress or the Office of the Secretary of Defense. Rarely have the Services initiated development of low cost alternatives without pressure.

More recently developed systems should benefit from the current emphasis on reliability, availability, and maintainability, therefore presenting a brighter future. But overall, Defense's emphasis on lower cost weapon systems and greater reliability, although well placed, has not been sufficient. A current example is the Army's Infantry fighting vehicle (IFV) which costs six times as much as the M113 which can carry about 50 percent more foot soldiers. GAO has recommended that the IFV's high cost merits considering the use of the M113 as part of the high-low mix within the mechanized Infantry Battalion providing the M113 fire power can be augmented.

GAO believes the Secretary of Defense and the Congress should carefully examine lower cost alternative programs before approving new weapon systems. In particular, they should explore with senior military officials the pros and cons of larger quantities of alternative weapons versus smaller numbers of highly sophisticated and expensive systems. This is another area for leadership by the Under Secretary of Research and Engineering.

GAO report PSAD 80-61 dated June 30, 1980 "Implications of Highly Sophisticated Weapon Systems On Military Capabilities"

PSAD 80-27, GAO letter report to the Secretary of Defense dated February 5, 1980 "Concern About The Army's Infantry Fighting Vehicle"

4. Fourth, Impediments To Reducing The Costs Of Weapon Systems Should Be A Prime Concern Of The Secretary Of Defense

Through the years, concern within the Congress and the Department of Defense (DOD) has been increasing over the ever-rising costs of weapon systems. The unit costs of ships, aircraft, tanks, and related items have increased dramatically since World War II--even after discounting the effect of inflation. With constrained peacetime budgets, this has resulted in the production of relatively small quantities of many weapon systems and has seriously affected overall military capabilities. In a report to the Congress dated November 8, 1979 GAO identified some factors leading to increased weapon systems costs.

GAO's conclusion is that the major effects on costs have resulted from:

- Low rates of production due to budget constraints and desires to maintain active production bases as long as possible.
- Absence of price competition between contractors.
- Lack of real motivation on the part of contractors to reduce costs.
- The impact of socioeconomic programs, Government controls, and red tape.
- A nationwide problem of reduced research and development expenditures and lessening productivity.

Problems related to attempts to deploy systems with new technology and high performance, probably the single greatest factor impacting on cost, are addressed in recommendation No. 3 above.

Some steps have been taken by DOD in attempts to limit costs, and GAO has concluded that these cost containment/reduction programs are generally worthwhile and deserve continuing emphasis.

GAO has recommended that the Congress should take the initiative to respond to the recommendations of the Commission on Government Procurement to (1) re-examine the full range of socioeconomic programs applied to the procurement process and the administrative practices followed in their application; and (2) raise the minimum dollar thresholds at which such programs are applied to the procurement process.

GAO has recommended that the Secretary of Defense (1) make a comprehensive study to identify those aspects of contract administration that can be relaxed or modified in order to reduce costs and paperwork; and (2) take stronger initiatives to accelerate the implementation of management policies for major weapon system acquisitions, as set forth in the Office of Management and Budget Circular A-109.

But new leadership is required to make further progress in these areas. It is hoped that the new Under Secretary of Research and Engineering, in concert with the Administrator, Office of Federal Procurement Policy will press vigorously ahead on these long overdue reassessments of procurement policies.

GAO report PSAD 80-6 dated November 8, 1979 "Impediments to Reducing the Cost of Weapon Systems"

FOR FURTHER INFORMATION

CONTACT: Walton H. Sheley, Jr., 275-3456

### C. MANPOWER ISSUES

Five subjects compose the agenda of high priority unresolved military manpower issues which are in urgent need of solution. These reforms will, of necessity, be gradual but their urgency is steadily worsening both in terms of cost implications and impacts on readiness.

1. Military Pay Reforms Have Been Debated  
For Two Decades With Very Disappointing Progress.  
New Leadership Is Needed.

A purpose of military compensation is to allow the Armed Forces to compete with other employers for the personnel they need. The base pay and allowances system has been long regarded as an inefficient way to support this objective and should be replaced by a salary system.

In our report of August 1, 1977 we pointed out that the pay and allowances system with its many components and hidden costs is complicated, and that few members who are paid under it know accurately how much of what they earn is equivalent to a civilian salary. They usually underestimate their equivalent salaries, which clearly does not help to recruit and retain personnel. The system is also inequitable, particularly for single members who earn less than married personnel even when rank, length of service, duties, and qualifications are equivalent. A salary system would increase military members' awareness of their pay, remove inequities, and make the true cost of military personnel easier to identify and enhance.

The practice of indexing military pay increases to General Schedule Civil Service increases was adopted as a temporary measure in 1967, pending study and reform of the military compensation system. Since then, the system has been studied extensively but changed very little despite many recommendations. The present method for adjusting military pay not only has little basis in logic, it also lacks a clear statement of what the Government's policy should be for compensating military personnel. This, and piecemeal changes to the system, has in turn contributed to a perception among members that military pay and benefits are being eroded.

The Department of Defense (DOD), the military services, and the Office of Management and Budget (OMB) have differing views on what principles should guide the setting of military pay. These views are based on competing pressures (1) to hold firm on current compensation; and (2) to make more efficient use of budget dollars.

Because it appears these organizations are unable to resolve their differences, we recommend that a permanent, independent "Compensation Board" be established to evaluate principles and policies for setting and adjusting military pay, propose legislation, and continuously monitor the system. The Secretary

as well as distorted retirement compensation practices. Today's reactive programs such as enlistment/reenlistment bonuses, and rapid promotions, are costly and have proven over time to be "band-aid" solutions to long-term problems.

These issues were first addressed by GAO in a report of September 29, 1977.

The Secretary of Defense should launch a major effort (perhaps with the assistance of a Blue Ribbon Panel of Defense experts) to reassess the proper enlisted force management model.

GAO report FPCD 77-42 dated September 29, 1977 "Urgent Need For Continued Improvement In Enlisted Career Force Management"

4. Use Of More Civilians In Morale, Welfare, and Recreation (MWR) Activities-- And Reduction In Costs Of The Military Exchange Systems--Are Advocated

For several years the Congress has been concerned with the number of full-time military personnel assigned to MWR activities and, based on our earlier work, has established limits on the numbers that could be assigned. At Congressional request we reassessed the progress made in this regard and concluded in our report of July 11, 1979, that additional savings could be realized if non-appropriated fund personnel were substituted for military.

We believe the next step calls for leadership by the Secretary of Defense to require the identification of positions that must be reserved for military personnel in MWR-type activities, and to convert the remaining to civilian.

As a further result of our studies of the Military Exchange System we encountered opportunities for reducing management costs, and recommended that Congress not look to the exchanges as a source of funding other MWR activities.

Specifically, we concluded that if the exchanges were not required to help fund other activities, they would focus their attention on their primary mission to provide goods and services to military personnel employed at lowest practical prices. Hence we recommended that the Secretary of Defense eliminate the requirement, and that Congress directly appropriate funds for the full cost of these other MWR activities. A reduction of \$33 million in appropriated funds is believed obtainable. Although DOD managers of MWR activities have objected to moving in this direction, we feel the Secretary of Defense should make a clear decision and press for action.

cost-of-living adjustments for retirees should be made only once-a-year and limited to 75 percent of the increase in the Consumer Price Index—the average percentage pay increase granted to nonretired employees. While the established policy of full, automatic indexation is a laudable objective, it is a benefit not normally available to retirees in the private sector. This is thus simply a question of affordability and equity. This matter was discussed in a letter report to the President of the Senate on July 1, 1980.

The above issues might well be assigned as priority concerns to the Military Compensation Board, suggested in recommendation No. 1.

GAO report FPCD 78-49 dated December 29, 1978 "Need For An Overall Policy In Coordinated Management of Federal Retirement System"

GAO report FPCD 77-81 dated March 13, 1978 "The 20-Year Military Retirement System Needs Reform"

3. The Enlisted Military Force Composition Needed For The Future Should Be Thoroughly Evaluated. Action On These Long Overdue Reforms Is Lagging

The underlying cause of many of the retirement and compensation issues, stated above, is the force profile—i.e., years of service and rank/grade distribution—which results from the current military personnel management model. This is especially pertinent to the 1.8 million enlisted personnel who work in hundreds of technically diverse occupational specialties.

Service force management plans and objectives give inadequate recognition to the long-term effects of force management decisions on force structure cost and effectiveness.

With little exception, military personnel practices (enlistment, training, assignment and rotation, promotion, reenlistment, retirement, and compensation) are generally the same for all specialties and structured to 20 years service expectation.

Little or no consideration has been given to alternative personnel policies and differing combinations of grades and experience. The "aggregate approach" to military personnel management produces inadequate solutions to individual specialty needs, and causes serious career force imbalances,

5. Reserve Forces Manpower Management  
Needs Fresh Approach

Numerous GAO reports have highlighted problems which contribute both to costly activities and inefficient or inadequate manning of Reserves. Many of our past findings and recommendations have not received attention. For example, we have urged the Services to stop enlisting people in the Army Reserve who are not acceptable for active duty duty enlistments; and to stop basing Reserve Forces recruiting objectives on "what the market will bear" rather than on staffing needs. These issues were discussed in our report of August 20, 1979.

Another cluster of recommendations have concerned improvements in Reserve Forces training. Among the unresolved issues which have been raised are the reasonableness of insisting on 48 drills and 2-week active duty training tours for all Reservists, regardless of their skill proficiencies. There are also potentials, we believe, for expanding the support of the Reserves from the active Army establishment, thus reducing or eliminating the administrative workload now placed on Reserve units. This would open up opportunities to reduce training times or increase time spent on mission-related activities. These matters were discussed in our report of July 30, 1979.

Another cluster of opportunities in our June 28, 1979 report concern improvements in the mobilization processing of conscripts, volunteers, and recalled Reservists.

All of these matters preserve concentrated attack by the Reserve Force Managers.

GAO report FPCD 79-71 dated August 20, 1979 "Difficulties In Selected Army Reserve Recruiting Under The All-Volunteer Force"

GAO report FPCD 79-59 dated July 30, 1979 "Efficiency Of Reserve and Guard Training Has Improved Since 1974, But More Can Be Done"

FOR FURTHER INFORMATION

CONTACT: Clifford I. Gould, 275-6209

CHAPTER 3  
SELECTED PROPOSALS FROM  
THE FISCAL YEAR 1982 CARTER BUDGET

Legislative Proposal from Budget:

"Shift to annual indexing of Federal personnel retirement:

Military retired pay

See page 204.



**FEDERAL COMPENSATION REFORM**

Legislative Proposal from Budget:

"Federal Compensation Reform: Department of Defense"

See Page 203

**OTHER AGRICULTURE PROGRAMS**



**Legislative Proposal from Budget:**

**"Impose User Fees for Services by the  
Agricultural Marketing Service to Grade and  
Classify Tobacco and Cotton"**

The provision of free cotton classing and tobacco grading to producers is inconsistent with the Government's policy of charging fees for special services and with the practice of charging for grading other commodities.

**Findings/Conclusions:** Most agricultural commodities

Other than cotton and tobacco, are graded by the Department of Agriculture on a reimbursable basis. In fiscal year 1976, the Department spent \$66.2 million grading commodities. Of this, \$48.5 million was recovered primarily through charges to those using the services. Of the \$17.7 million not recovered, \$11.2 million represented cotton classing and tobacco grading services provided without charge to producers. The original reasons for providing free tobacco grading and cotton classing services are no longer applicable. Cotton classing and tobacco grading do provide special benefits to the producers because the producers are now paid on the basis of grades assigned to the commodities.

**Recommendations:** The Congress should amend the Cotton Statistics and Estimates Act and the Tobacco Inspection Act to authorize the Secretary of Agriculture to charge producers for cotton classing and tobacco grading services furnished by the Department.

The Department of Agriculture had not taken a position on GAO's recommendation at the time of the report. However, in hearings before the Senate Appropriations Subcommittee on fiscal year 1979 appropriations, the Department said it had some reservations about charging users for cotton classing and tobacco grading services. As of October 1979, the Department was not planning any action to establish user fees for cotton classing and tobacco grading services.

***The Department of Agriculture Should Be Authorized to Charge for Cotton Classing and Tobacco Grading Services (CED-77-105, 8-2-77)***

FOR FURTHER INFORMATION

CONTACT: Leigh Cowing, 447-2234

GAO recently completed a review of USDA's use of user charges to fund various special benefit services, including cotton classing and tobacco grading. A draft of the proposed report was sent to the agency for comment on January 16, 1981.

### Marketing services

The Department administers programs to inspect, grade, or class a wide variety of agricultural commodities. These services are intended to facilitate orderly marketing, and all provide similar "special benefits" to identifiable persons or groups. For certain commodities (such as cotton, grain, tobacco, and naval stores), the services are authorized by legislation that covers the specific commodity. For other commodities (such as meat, poultry, livestock, fruits and vegetables, rice, and grain products), the services are provided under general authority contained in the Agricultural Marketing Act of 1946.

Differences in the funding provisions of the authorizing acts result in certain costs associated with providing services for some commodities being financed with user charges while the cost of similar services for other commodities are financed with appropriated funds. In every case, the acts covering specific commodities, although differing among themselves, result in a higher proportion of appropriations funding than the Agricultural Marketing Act.

In fiscal year 1980 about \$35.5 million of appropriated funds--\$20.7 million for supervision and overhead costs associated with grain inspection and weighing services and \$14.8 million for costs associated with cotton classing and tobacco inspection services--were necessary to finance costs associated with commodities covered by specific acts, whereas user charges were used to fund similar costs for most Agricultural Marketing Act commodity inspection programs. Also, for many years the Congress has provided special appropriations to defray national supervision costs related to two commodity groups whose services are provided

pursuant to the Agricultural Marketing Act. In fiscal year 1980 these special appropriations amounted to \$1.2 million: \$856,000 for the fresh fruit and vegetable program and \$327,000 for the poultry program.

"THE DEPARTMENT OF AGRICULTURE SHOULD BE PROVIDED  
AUTHORITY TO MAKE GREATER USE OF USER CHARGES  
TO FUND SPECIAL BENEFIT SERVICES"

FOR FURTHER INFORMATION

CONTACT: Leigh Cowing, 447-2234



**HEALTH PROGRAMS**

Legislative Proposal from Budget:

"Eliminate Bonus to Hospitals for Provision of Routine Nursing Services to Medicare Beneficiaries"

Preliminary work was begun on a study of the Medicare routine nursing salary cost differential. Work was initiated as a result of a proposed legislative mandate for GAO to undertake the study. The mandate did not materialize.

GAO is prepared to undertake the study if required and if it is funded.

FOR FURTHER INFORMATION

CONTACT: Pat Daly, 275-5470

Legislative Proposal from Budget:

"Other Health Care Cost Control Proposals"

GAO surveyed prices of supplies routinely purchased by 37 hospitals in six cities and found wide differences in prices paid for similar items. The most frequent explanation was that hospitals don't share price information with each other.

Since Medicare and Medicaid payments to hospitals include payments for these supplies, HEW and its contract intermediaries can assist hospitals to avoid paying excessive prices for routine purchases. By compiling price information and communicating it to hospitals, HEW could assist them in controlling costs.

HOSPITALS IN THE SAME AREA OFTEN PAY WIDELY DIFFERENT PRICES FOR COMPARABLE SUPPLY ITEMS (HRD-80-35, Jan. 21, 1980)

FOR FURTHER INFORMATION

contact: Tom Dowdal (FTS 934-4428)

**Legislative Proposal from Budget:**

**"Other Health-care Cost Control Proposals"**

Cost-based retrospective payment for hospital services is inherently inflationary. Yet, because retrospective payment is the prevalent reimbursement method used by third-party payers, both government and private, most hospital payments today are based on costs. Since this system guarantees hospitals the recovery of virtually all reasonable costs incurred, hospitals nationwide have not adopted, to the extent possible, effective and easily implemented management techniques to restrain cost increases.

Some States that have abandoned the practice of paying hospitals based on costs and adopted hospital rate regulation programs have been effective in restraining rising hospital costs. Hospital rate regulation offers promise as a means of restraining future cost increases.

The Congress should amend the Social Security Act to allow the Health Care Financing Administration to broaden Medicare participation in hospital rate regulation programs which contain stronger incentives for improved hospital management.

**RISING HOSPITAL COSTS CAN BE RESTRAINED BY REGULATING PAYMENTS AND IMPROVING MANAGEMENT (HRD-80-72, Sept. 19, 1980)**

**FOR FURTHER INFORMATION**

**contact: Bill Gerkins (275-5132)**

Legislative Proposal from Budget:

"Other Health-care Cost Control Proposals"

Because of the increasing costs of Government health programs--a subject of nationwide concern--GAO reviewed how agencies have implemented its recommendations to help control the costs of health programs.

GAO found that 84 of its reports issued from January 1974 through December 1978 on Federal and Federal/State health programs contained 262 cost-saving recommendations to the Congress and responsible Federal agencies. So far, 98 recommendations have been put into effect and savings of millions of dollars realized. However, 164 others have either not been carried out or only partially so. The Congress and the agencies should put into effect the outstanding recommendations. Millions more would be saved.

HEALTH COSTS CAN BE REDUCED BY MILLIONS OF DOLLARS IF FEDERAL AGENCIES FULLY CARRY OUT GAO RECOMMENDATIONS (HRD-80-6, Nov. 13, 1979)

FOR FURTHER INFORMATION

Contact: Tom Dowdal, FTS 934-4428



**OTHER INCOME SECURITY PROGRAMS**

Legislative Proposal from Budget:

"Reform and simplify the AFDC program and improve the child support enforcement program"

Erroneous payments to AFDC program recipients have been a major concern. Two of our reports dealt with efforts to reduce erroneous AFDC payments. During our first review, nearly \$500 million in Federal funds was being misspent annually.

HEW had attempted to encourage error reduction by requiring States to implement quality control programs and issued regulations that provided for financial sanctions or penalties against States with high error rates. HEW's quality control system was established in 1973 to identify and measure incorrect payments for the purpose of giving management information for developing corrective action to reduce errors. The system had been operated mainly by States, and the HEW regional quality control staffs had been reviewing and monitoring State systems. HEW headquarters staff oversaw the efforts and compiled national error rate statistics.

Sixteen States and one county challenged the AFDC sanction regulation, contending that it penalized States for errors they could not reasonably be expected to correct and that the specific sanctions were arbitrary. The courts ruled in favor of the States that the specific sanctions imposed were unenforceable, but that under the Secretary's rulemaking power, HEW could impose reasonable sanctions supported by factual bases rather than an arbitrarily established tolerance level.

We recommended that the Congress determine the control that would best provide desirable financial incentives and should enact legislation to establish such incentives to effectively control AFDC payment errors. We stated that the Congress, in its development of such legislation, should seek HEW's assistance to determine an appropriate and feasible incentive. We believed that such legislation should provide for using a payment error rate as the basis for setting goals for measuring States' accomplishments in reducing errors.

The Congress took positive action by including a formula in the Social Security Amendments of 1977 by which States that reduced their quality control error rates below 4 percent could participate increasingly in the Federal share of the money saved. According to HEW officials, three States—Nevada, North Dakota, and Oklahoma—had reduced their error rates sufficiently to be eligible to participate in the Federal funds saved during 1978.

Since the quality control program was initiated in 1973, HEW had continually overstated the program's accomplishments. Savings estimates resulting from error reductions were not based on valid statistical projections and included actions which did not necessarily produce direct savings in welfare payments. HEW did not consider the administrative costs that would be associated with implementing corrective actions. In addition, States generally did not conduct cost effectiveness studies before starting corrective actions, although they were required to do so by HEW.

We recommended that, to improve the administration of the quality control program, the Secretary of HEW revise the Department's basis for determining accomplishments resulting from States' efforts to reduce errors. HEW revised its method for determining savings by using statistical tests of significance and has revised its methodology in accordance with our recommendation.

We recommended that HEW base its reporting of State errors on dollar amounts rather than on case error rates. Currently, HHS is reporting State errors with a focus on dollar amounts rather than case error rates, although it continues to develop both case and payment error rates.

We also recommended that HEW help States identify corrective actions that can be demonstrated to be cost effective. HEW had a study underway to examine the cost effectiveness of corrective actions at the time of our review. The results of this study showed that actual program savings resulting from reduced erroneous payments substantially exceed the administrative cost attributable to quality control and corrective action efforts. However, the study also showed that costs and difficulties were encountered in attempting to isolate the cause and effect relationship between multi-corrective actions and specific error reductions so that calculating net savings on an ongoing basis would be impractical.

In addition to continuing efforts to provide technical assistance on ways to reduce errors, such as issuing publications, holding workshops, and engaging contractors, HEW developed, in line with our recommendation, an expanded program focusing on key areas in the use of proven effective actions, such as the use of "error-prone" profiles for cases likely to have errors, monthly recipient reporting systems, and consolidating assistance standards.

LEGISLATION NEEDED TO IMPROVE PROGRAM FOR  
REDUCING ERRONEOUS WELFARE PAYMENTS

(HRD-76-164, August 1, 1977)

We also reviewed the AFDC quality control system.

Recommendation to the  
Appropriations Committees

We recommend that the House and Senate Appropriations Committees retract the conference committee directive for Federal fiscal sanctions against States based on the AFDC quality control error rates.

BETTER MANAGEMENT INFORMATION CAN BE  
OBTAINED FROM THE QUALITY CONTROL SYSTEM  
USED IN THE AFDC PROGRAM

(HRD-80-80, July 18, 1980)

FOR FURTHER INFORMATION

CONTACT: Gregory J. Ahart, 275-5470

Legislative Proposal from Budget:

"Reform the railroad retirement program to help restore the solvency of the railroad industry pension fund"

This effort is an examination of various cost savings recommendations we had made regarding the social security program; we will determine their applicability to the railroad retirement program. We have identified several areas where changes that would affect dollar savings in the social security program would also apply to railroad retirement. Additionally, we are reviewing the Railroad Retirement Board's procedures for identifying, collecting, and preventing overpayments and expect to issue a report to the Congress on the two above-mentioned issues in mid-1981.

SURVEY OF APPLICATION OF GAO COST SAVINGS RECOMMENDATIONS  
ON SSA TO THE RAILROAD RETIREMENT BOARD

FOR FURTHER INFORMATION

CONTACT: Gregory J. Ahart, 275-5470

Legislative Proposal from Budget:

"Eliminate GI Bill Benefits for Correspondence Courses and  
General Flight Training"

Over 1 billion dollars in educational assistance has been paid by the Veterans Administration to veterans enrolled in flight or correspondence training since the current GI bill was enacted in 1966. However, GAO's review of a random sample of veterans who completed such training during a recent 5-year period showed that only about 16 percent of flight-trained veterans and 34 percent of correspondence-trained veterans have full-time jobs related directly to their training.

Employment survey reports submitted to VA by vocational/technical schools indicate that in general over 50 percent of flight and correspondence course graduates have found training-related employment. However, these reports provide no assurance that most veterans obtained full-time employment in training-related occupations. GAO findings support proposed legislation submitted by VA to terminate GI bill benefits for flight and correspondence training.

The Chairman, Senate Committee on Veterans' Affairs, asked GAO to survey a representative sample of veterans who had completed flight or correspondence courses to determine whether their full-time occupations were related to the training they had received under the GI bill.

GI BILL BENEFITS FOR FLIGHT AND CORRESPONDENCE TRAINING  
SHOULD BE DISCONTINUED (HRD-79-115, Aug. 24, 1979)

FOR FURTHER INFORMATION  
contact: Dave Zylks (245-9623)

