



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

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B-204078

MARCH 21, 1983

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

Subject: Certification of Revenues for Fiscal Year 1984
Panama Canal Commission (GAO/ID-83-29)

The Panama Canal Act of 1979 (22 U.S.C. 3601-3871 (Supp. IV 1980)), requires the Comptroller General of the United States to certify the Secretary of Defense's¹ estimate of the Panama Canal Commission's annual revenues to be deposited in the Panama Canal Commission Fund. This report responds to this requirement for fiscal year 1984 estimated revenues and deposits.²

Specifically, section 1302(c)(2) of the Act states that:

"No funds may be appropriated to or for the use of the Commission for any fiscal year in excess of (A) the amount of revenues deposited in the Panama Canal Commission Fund during such fiscal year, as such amount is estimated by the Secretary of Defense and certified by the Comptroller General of the United States at the time the budget request for the Commission for such fiscal year is submitted to Congress ***."



The Act provides no criteria for us to use in certifying the estimated revenues. Therefore, we proceeded by testing Commission computations of fiscal year 1984 estimates and reviewing the method employed to compile the estimates and forecasts. We previously employed this same procedure to certify Commission-estimated revenues for fiscal years 1980, 1981, 1982, and 1983. We also compared actual and estimated revenues for fiscal years 1980, 1981, and 1982.

COMMISSION ESTIMATE FOR FISCAL YEAR 1984

The Assistant Secretary of the Army (Civil Works),¹ who is also Chairman of the Commission Supervisory Board, estimates

¹Duties assigned by the Act to the Secretary of Defense were subsequently delegated to the Secretary of the Army and by him to the Assistant Secretary of the Army.

²The Commission requires that tolls be paid or secured prior to transit. Thus, for the Commission the terms revenues and deposits are practically synonymous. These terms are used interchangeably in this report.

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that the amount to be deposited in the Panama Canal Commission Fund will be \$459.1 million. (See enc. I.) This forecast represents the Commission's judgment, based on present circumstances, of the most likely set of conditions and the Commission's most likely course of action.

HOW THE ESTIMATE WAS DEVELOPED

Tolls charged vessels which transit the Canal will generate the majority--\$329.4 million--of the Commission's projected revenues. Non-toll revenues of \$129.7 million are expected to be generated by providing supporting services, such as navigation, sales of water and power, and rents on employee housing. The methods of estimating toll and non-toll revenues differ, and are treated separately in this discussion.

Toll revenue

The toll-revenue estimate is the product of the number of Panama Canal net tons (PCNT)³ expected to transit the Canal and the approved toll rate. The number of PCNT is based on the forecast of expected oceangoing transits. Toll rates are to be set at a level designed to make the Commission self-supporting.

Determination of PCNT: A December 1980 study, prepared for the Commission by Economic Research Associates (ERA), provides forecasts of transits by oceangoing commercial ships by commodity, vessel size (length, beam and draft), and trade route for the 10-year period from 1981 to 1990. From these data, the PCNT expected for a given fiscal year can be estimated. The study's forecast for fiscal year 1984 is 14,086 oceangoing transits, carrying 199.8 million PCNT. We examined this study during our work for the fiscal year 1983 estimate and found it to be reasonable. We accepted it without further retesting for our work on the 1984 estimate.

The Commission then adjusted the ERA study data for events not anticipated by the study. For example, the ERA study assumed no alternatives to the Canal for vessels carrying Alaska North Slope Crude Oil. However, a trans-Panama pipeline developed specifically for ANS oil became operational during fiscal year 1983. North Slope oil accounted for an average of 4.2 vessel transits per day during fiscal year 1982 and generated revenues of \$50.8 million.

Following adjustments, the Commission arrived at an estimate for fiscal year 1984 of 13,225 oceangoing transits carrying

³A Panama Canal net ton is equal to 100 cubic feet of revenue-generating capacity beneath the deck of a vessel.

185.2 million PCNT. By way of comparison, the Commission estimated 13,520 oceangoing transits carrying 184.5 million PCNT during fiscal year 1983.

Determination of Toll rates: Section 1602(b) of the Panama Canal Act of 1979 provides:

"Tolls shall be prescribed at rates calculated to produce revenues to cover as nearly as practicable all costs of maintaining and operating the Panama Canal, together with the facilities and appurtenances related thereto, including unrecovered costs incurred on or after the effective date of this Act, interest, depreciation, payments to the Republic of Panama pursuant to paragraph 5 of Article III and paragraph 4(a) and (b) of Article XIII of the Panama Canal Treaty of 1977, and capital for plant replacement, expansion, and improvements. Tolls shall not be prescribed at rates calculated to produce revenues sufficient to cover payments to the Republic of Panama pursuant to paragraph 4(c) of Article XIII of the Panama Canal Treaty of 1977."

The Commission does not anticipate a toll rate increase for fiscal year 1984. However, a 9.8 percent toll rate increase is planned to become effective during March 1983. The effect of this tolls increase is included in the Commission's estimate for fiscal year 1984.

The fiscal year 1984 estimate does not include the effect of fees earned from a system providing users with reservations for transit. Such a system was tested during fiscal year 1982 and earned revenues of \$5.9 million over a 4 month period. The test was considered a success and the Commission has recommended that the Supervisory Board approve the system for permanent use.

Non-toll revenues and deposits

Revenues and deposits expected to be derived from supporting activities, such as navigation services, or water and power production and delivery, are based on the most recent Commission estimates of revenues from these sources for fiscal year 1983 adjusted for foreseeable variations. The revenues estimate for fiscal year 1984 is \$129.7 million. Non-toll revenues are expected to increase \$10.3 million or (8.6 percent) between fiscal years 1983 and 1984. The expected increase is due to an increase in rates rather than an increase in the sales of more services.

COMPARISON FOR PRIOR YEAR
ESTIMATES AND ACTUAL REVENUE

We began certifying Commission revenues estimates with the estimate for fiscal year 1980. The comparison between actual and estimated revenues for fiscal years 1980, 1981, and 1982, the only years for which comparison is currently possible, is shown below (in millions of dollars).

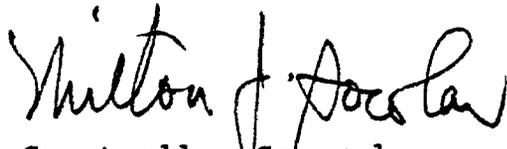
<u>FISCAL YEAR</u>	<u>ESTIMATE</u>	<u>ACTUAL</u>	<u>DIFFERENCE</u>	
			<u>AMOUNT</u>	<u>PERCENT</u>
1980	\$463.9	\$455.5	\$8.4	1.8
1981	410.1	409.7	0.4	0.1
1982	440.0	440.1	0.1	-

Even though fiscal year 1983 is not complete, the Commission projects a substantial shortfall--\$34.1 million--between estimated and actual deposits. Last year's certification was based on the assumption that a tolls rate increase of 13.1 percent would be imposed on October 1, 1982 (see ID-82-26). That increase has been delayed until March 1983, and reduced to 9.8 percent. Based on the Commission's current estimate of fiscal year 1983 revenues, actual revenue may vary from estimated revenue during fiscal year 1983 by 7.3 percent.

The Commission begins work on its revenue estimates over 20 months before the start of the fiscal year for which the estimate is made. For example, work on the fiscal year 1984 estimate began in January 1982 and the final estimate was presented to the Comptroller General for certification on January 10, 1983. Even considering the wide variances expected for fiscal year 1983, we believe the Commission has been quite successful in estimating its revenues.

CERTIFICATION OF REVENUES AND DEPOSITS

Based on our review, we believe the underlying assumptions provide a reasonable basis for making an estimate of the revenue to be deposited in the Panama Canal Commission Fund during fiscal year 1984. However, some of these assumptions may not materialize and unanticipated events may occur; therefore, results achieved may vary from the forecast and the variation may be material.

for 
Comptroller General
of the United States

Enclosure



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON, D.C. 20310

10 JAN 1983

Honorable Charles A. Bowsher
Comptroller General
of the United States
Washington, D.C. 20548

Dear Mr. Bowsher:

The Panama Canal Act of 1979 requires the Comptroller General of the United States to certify the expected revenues to be deposited into the Panama Canal Commission Fund for the year in which appropriations are being requested. In anticipation of the Commission's budget being submitted to the Congress in January 1983, this is a request to certify the Commission's revenue estimates for FY 1984.

Specifically, Section 1302(c) (2) of the Panama Canal Act of 1979 provides that:

"No funds may be appropriated to or for the use of the Commission for any fiscal year in excess of (A) the amount of revenue deposited in the Panama Canal Commission Fund during such fiscal year, as such amount is estimated by the Secretary of Defense and certified by the Comptroller General of the United States at the time the budget request for the Commission for such fiscal year is submitted to the Congress, plus (B) the amount of revenues deposited in such Fund prior to such fiscal year and remaining unexpended at the beginning of such fiscal year...."

In conformance with subparagraph (2) (A) of section 1302(c) of said Act, I estimate that the operating revenues to be deposited by the Panama Canal Commission into the Panama Canal Commission Fund during fiscal year 1984 will amount to \$459,125,000 of which \$329,400,000 will come from tolls and \$129,625,000 from other services. In addition to those operating revenue receipts, the Panama Canal Commission will deposit into the Panama Canal Commission Fund in fiscal year 1984 \$100,000 from the disposal of plant assets.

The FY 1984 toll income projection is predicated on a toll rate increase of 9.8% effective for the entire year. This toll rate increase is expected to be adequate to recover all operating costs and no further adjustment in toll rates is anticipated in FY 1984.

Total deposits by the Panama Canal Commission into the Panama Canal Commission Fund during fiscal year 1984 are, therefore, estimated at \$459,125,000 (see attachment). This estimate is based on the projections contained in the President's Budget for fiscal year 1984.

Honorable Charles A. Bowsher

Your certification of the amount estimated for deposit into the Panama Canal Commission Fund in fiscal year 1984 will be appreciated.

Sincerely yours,

W. R. Gianelli

William R. Gianelli
Assistant Secretary of the Army
(Civil Works)

Enclosure

cc:
Annelise Anderson, OMB

Panama Canal Commission
 Estimate of Revenues and Deposits
 President's Budget FY 1984

	<u>In thousands</u>
Tolls (at existing rates)	300,000
Provision for toll rate increase	<u>29,400</u>
Total tolls	<u>329,400</u>
Revenue other than Tolls:	
Navigation services	63,688
Power services	39,074
Water system	10,398
Employee Housing	6,149
All other	<u>10,316</u>
Total Revenue other than Tolls	<u>129,625</u>
Total operating revenues	<u>459,025</u>
Proceeds from disposal of fixed assets	<u>100</u>
Total estimated receipts to be deposited in U.S. Treasury - FY 1984	<u><u>459,125</u></u>