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

B-201962

May 22, 1981

The Honorable Jack Brooks
Chairman, Committee on Government
Operations
House of Representatives

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Dear Mr. Chairman:

This responds to your request for our [comments on H.R. 325], a bill to provide for the inclusion of certain Federal entities in the budget totals. We are pleased to note that the purpose of the bill is similar to the views we have expressed in our reports and testimony over the years (see enclosure). We believe that early legislative action is needed to put the federally owned "off-budget" activities and spending into the budget's totals as soon as possible. The exclusion by statute of certain key governmental activities could cause the budget's total outlays and deficit for fiscal year 1981 to be understated by as much as \$23 billion. This is a serious distortion of important budget totals used for congressional targets and ceilings.

The 1967 President's Commission on Budget Concepts viewed as its most important recommendation its strong statement in favor of a single "unified" budget encompassing all Federal activities. The Commission was correct in emphasizing a comprehensive budget because the starting point in assessing the adequacy of any budget is its coverage. Failure to include all relevant activities misleads the public and possibly the Congress on the true magnitude of the Federal Government's spending, and permits the programs not included to escape the scrutiny and limitations of the full budget process. Accountability can be seriously weakened.

Of particular concern is the Federal Financing Bank's (FFB) off-budget role in Federal credit assistance activity. We have consistently opposed the off-budget status of the FFB as well as other questionable budget practices which combine to produce an inadequate and incomplete picture of Federal credit assistance activity. The current relationship between Federal credit agencies and the FFB causes incentives for the inappropriate use of Federal credit assistance.

Most notable among the questionable budget practices are the off-budget FFB acquisition of other Federal agencies' certificates of beneficial ownership (CBO's), various assets, and guaranteed loans. This latter practice could reach \$10 billion for fiscal

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year 1981. It results in conversion of \$6 billion of on-budget guaranteed loans into off-budget FFB direct loans which are not recorded as on-budget outlays. The FFB also converts \$4 billion of the off-budget Rural Electrification Administration's (REA) guaranteed loans into FFB direct loans which are not recorded as outlays in the REA's account. These practices reduce or eliminate sharing of risk, create the potential for oversubsidization of program beneficiaries, and encourage the use of credit assistance when this device may not be appropriate.

The most serious Federal credit assistance problems would be avoided by including the FFB's receipts and disbursements in the budget totals.

FURTHER ACTION NEEDED CONCERNING
TWO OFF-BUDGET ENTITIES

We note the bill does not provide for inclusion of two off-budget Federal entities in the budget totals--the Synthetic Fuels Corporation and the Board of Governors of the Federal Reserve System. Although Federal payments to the Synthetic Fuels Corporation are on-budget, we believe the entire activity of the corporation should be included in the unified budget totals. As H.R. 325 notes, an important principle of public finance is that budgets include the broadest possible coverage of Government operations and therefore the Corporation's activities should not be excluded. Regarding the Board of Governors of the Federal Reserve System, however, we believe your committee, during hearings on the bill, should start oversight activity to determine whether the Board should be included under the provisions of H.R. 325. Although the Board is considered to be federally owned, it has a unique role within the Government, and there is a possible need to continue its off-budget status in order to isolate it from undue political pressures. The Board's current budget status is a matter warranting further review to determine whether it should be brought on-budget or remain off-budget.

ADDITIONAL PROBLEM REGARDING
BUDGET TREATMENT OF CBO'S

We suggest inclusion of language in H.R. 325 to eliminate another budget practice which results in an understatement of budget totals--the classification of CBO's as "a sale of assets" rather than "borrowings." Inclusion of such language in the bill would augment the bill's goal of bringing about "honest budgeting." CBO's are issued mainly by the Department of Agriculture's Farmers Home Administration and Rural Electrification Administration as a means of financing their program operations. Although these instruments are debt securities and represent borrowing transactions (the issuing agencies must repay the amounts), they are defined legislatively as asset sales. Therefore, proceeds from sale of CBO's (currently to the FFB) are treated as offsets to the selling

agencies' outlays, rather than as borrowings. This misclassification could result in understating agencies' outlays and borrowings (on and off-budget) for fiscal year 1981 by almost \$17 billion.

This practice should be eliminated by changing language in the relevant agencies' authorizing statutes to specifically define CBO transactions as borrowing. H.R. 325 does not currently propose to do this.

SUGGESTED CHANGES TO H.R. 325

We suggest the following language changes to H.R. 325 which we believe would assist even more in bringing about the stated purpose of the bill.

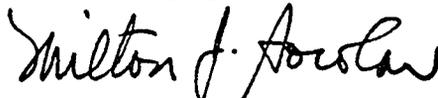
- Change Sec. 2(c) by eliminating reference to the Pension Benefit Guarantee Corporation which was recently brought back on-budget through passage of Public Law 96-364 (94 Stat. 1208, 1303). Include in its place the Synthetic Fuels Corporation. This would require replacing the current wording of Sec. 4 to read, "Sec. 4. Section 153 of The Energy Security Act (42 U.S.C. 8753) is amended by deleting "but shall not" in the last sentence and inserting in lieu thereof "and shall."
- Expand Sec. 6 to read (after "of the United States" on page 4, line 3), "Further, the Bank's purchase of Certificates of Beneficial Ownership shall be treated and recorded as borrowing by the selling agency instead of as a sale of assets. Sec. 310B(d)(6) of the Consolidated Farm and Rural Development Act, 7 U.S.C. 1932(d)(6), is amended by deleting "a sale of assets" in the first sentence and inserting in lieu thereof "borrowing."
- Change Sec. 8 eliminating "1985" and inserting (in both instances) "1983" and change "January 1984" to "January 1982" to make the bill effective with the 1983 budget. These changes would be consistent with the date cited in Sec. 2(c).

I appreciate the opportunity to comment on this important bill. This is the time, in my opinion, when these types of actions are needed to improve the purpose and effectiveness of the unified budget and the congressional budget process. The "Honest Budgeting Act" is a timely step in the right direction towards continued

B-201962

needed reform of the budget process. We will contact your office regarding release and further distribution of our comments on H.R. 325.

Sincerely yours,

A handwritten signature in cursive script that reads "Milton J. Fowler".

Acting Comptroller General
of the United States

Enclosure

RELEVANT REPORTS AND STATEMENTS
ON THE OFF-BUDGET PROBLEM

REPORTS

<u>Title of Subject</u>	<u>Date</u>	<u>Control #</u>
Letter Report to the Chairman of the House Budget Committee Summarizing Prior GAO Statements on the Off-Budget Problem	May 9, 1977	PAD-77-55
Government Agency Transactions with the Federal Financing Bank Should Be Included in the Budget	Aug. 3, 1977	PAD-77-70
Federal Credit Assistance: An Approach to Program Design and Analysis	May 31, 1978	PAD-78-31
Letter Report to the Director of OMB on Federal Credit Programs	Dec. 28, 1978	PAD-79-46
Federal Outlay Estimates: A Growing Problem	Feb. 9, 1979	PAD-79-20
Legislative Change Needed to Improve Budget Treatment of Certificates of Beneficial Ownership	April 9, 1980	PAD-80-32
Federal Budget Totals Are Understated Because of Current Budget Practices	Dec. 31, 1980	PAD-81-22
Federal Budget Concepts And Proceures Can Be Further Strengthened	March 3, 1981	PAD-81-36

RECENT STATEMENTS 1/

<u>Title or Subject</u>	<u>Date</u>	<u>Committee or Organization</u>	<u>Speaker</u>
Budget Treatment of the FFB	Sept. 20, 1977	Subcommittee on Oversight, House Committee on Ways and Means	Elmer B. Staats, Comptroller General of the United States

1/See PAD-77-55, May 9, 1977, for a summary of prior GAO statements.

<u>Title or Subject</u>	<u>Date</u>	<u>Committee or Organization</u>	<u>Speaker</u>
The Federal Budget Process	Dec. 11, 1979	Budget Process Task Force, House Committee on the Budget	Elmer B. Staats, Comptroller General of the United States
Control of Loan Guarantees	June 23, 1980	Special Subcommittee on Control of Federal Credit	Harry S. Havens, Assistant Comptroller General for Program Evaluation
The Need For Continued Budget Reform	Nov. 21, 1980	American Association for Budget and Program Analysis	Elmer B. Staats, Comptroller General of the United States
President's Program for Economic Recovery	March 3, 1981	House Committee on the Budget	Elmer B. Staats, Comptroller General of the United States