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FUTURE OF THE PENNY

Options for Congressional
Consideration

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Future of the Penny: Options for Congressional Consideration

The Chairman of the Subcommittee on Domestic and International Monetary Policy, House Committee on Banking and Financial Services, asked GAO to review whether the United States should continue producing the penny. GAO found that, in deciding the future of the penny, several factors, including government costs, public attitudes, budgetary and operational impacts on the Mint and Mint contractors, and the fairness of rounding prices to the closest 5-cent increment, warrant congressional consideration.

With its relatively small purchasing power, the penny is used primarily to make change for cash transactions and for the most part does not circulate after initial receipt by the public. Although it cost less than a penny for the government to mint a penny, the government lost \$8 million to \$9 million in 1994 after considering the cost of distributing the penny to commercial banks.

Public opinion on the penny is mixed. According to GAO's recent poll, while over half of the people would prefer rounding to using pennies, a similar percentage also believe the penny is useful and should be retained.

An immediate withdrawal of the penny could be costly to the government, but GAO was unable to quantify the budgetary impact, primarily because it is not known how many of the 132 billion pennies the Mint believes to be in circulation would be returned. If a substantial number of pennies were returned, the government could incur substantial costs in processing and melting down the pennies. Elimination of the penny would also result in the loss of jobs for the contractors who produce zinc penny blanks for the Mint and might also result in the loss of jobs for related businesses.

GAO's review disclosed no negative impact on the states' ability to collect sales taxes if the penny were eliminated. Neither did GAO's review identify any significant environmental problems caused by the production and disposal of pennies.

H.R. 3761, introduced in 1989, suggested a rounding system whereby cash purchases would be rounded down to the nearest 5-cent price when the total transaction amount, including sales taxes, ended in 1,2,6, or 7 cents and rounded up when the total price amount ended in 3,4,8, or 9 cents. Prices of all items would continue to be priced in cents, and purchases paid by check, credit or debit cards, money order, or electronic fund transfers would be exempted from rounding.

Summary
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GAO identified three options for congressional consideration: continue with the penny, eliminate the penny and round all cash transactions, or authorize rounding of cash transactions as an option to the consumer.

Future of the Penny: Options for Congressional Consideration

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the results of our review that you requested on issues related to whether the United States should continue producing the penny.

The penny was first authorized by Congress in 1792. The penny's purchasing power is now about one-ninth of what it originally was. Today, pennies are made of 97.5 percent zinc and 2.5 percent copper. Contractors in Tennessee and Illinois produce copper-coated zinc blanks for the Mint to stamp as pennies. Pennies are then coined by the U.S. Mint, a unit of the Treasury Department, at its Denver and Philadelphia facilities. In 1995, the Mint issued 13.5 billion pennies, which represented 69 percent of all circulating coins produced that year and about 50 pennies per American. Over the past 30 years, the Mint has produced 288 billion pennies.

In our 1990 report on the penny, we said that, while some Americans would welcome the elimination of the penny because of its low purchasing power and inconvenience, they seemed to tolerate the coin.¹ We also reported that several other industrialized countries, including France, the Netherlands, Spain, and the United Kingdom, stopped producing their lowest denomination coins during the 1970s and 1980s because they were expensive to produce, did not circulate, and had very little purchasing power. Similarly, Australia, in 1990, and New Zealand, in 1989, stopped producing their 1-and 2-cent coins because their manufacturing cost exceeded their face value and because of their low purchasing power.²

Objectives

Mr. Chairman, when you requested this work, you asked us to update our 1990 report. We examined

- the government's cost to produce and distribute the penny;
- the public's attitude toward the penny;
- the budgetary and operational impact on the Mint of eliminating the penny;
- other economic impacts associated with eliminating the penny;
- the environmental impact of producing and disposing of pennies; and
- how prices for cash transactions could be rounded.

¹National Coinage Proposals: Limited Public Demand for New Dollar Coin or Elimination of Pennies, (GAO/GGD-90-88, May 23, 1990).

²As of July 1, 1996, the Australian dollar was worth U.S. \$0.79 and the New Zealand dollar was worth U.S. \$0.68.

I will summarize the results of our work. A summary of the scope of our work and methodology is contained in appendix I.

Penny Production and Distribution Were Not Profitable to the Government in Fiscal Year 1994

The government as a whole did not profit from producing and distributing pennies in fiscal year 1994. After considering both the Mint's profit from producing pennies and the Federal Reserve System's cost of handling pennies, we estimated that the net cost to the government was \$8.5 million to \$9.2 million in fiscal year 1994.

The Mint reported that its fiscal year 1994 total cost to produce and transport 13.5 billion pennies to the Federal Reserve was \$96.9 million, resulting in a unit cost per penny that was less than the face value of the penny—0.7 cents (seven-tenths of a penny).³ We made adjustments to the Mint's calculated costs to produce the penny which increased the Mint's total costs from \$96.9 million to \$106.6 million and the unit cost from 0.7 cents to 0.8 cents. The rationale for our adjustments of the Mint's overhead and general and administrative costs are discussed below and shown in table 1.

First, we reallocated overhead and general and administrative costs on the basis of the number of coins produced, as opposed to the Mint's allocation which is based on direct labor hours for all circulating coins. Although the penny represented 70 percent of the total 19.2 billion circulating coins the Mint produced in fiscal year 1994, the Mint's allocation, which was based on direct labor hours, resulted in charging only about 50 percent of all overhead and general and administrative costs to the penny. The Mint indicated that it uses direct labor hours to allocate overhead because much of the work on the penny is completed by contractors before it reaches the Mint. However, because the work completed on the penny before it reaches the Mint is done under Mint contracts, there are Mint overhead and general and administrative costs associated with contract negotiation and contract monitoring. This adjustment increased the total cost of penny production in fiscal year 1994 by \$9.6 million.

³A June 1995 Treasury Inspector General (IG) report on the Mint's fiscal year 1994 financial statements indicated that the Mint had an inadequate and fragmented fund structure, including weaknesses in the cost accounting system for circulating coins. As a result, the report stated, the Mint's true operating costs could be understated. According to Mint officials, the problems associated with a fragmented fund structure were resolved when legislation was enacted in November 1995 to establish a revolving fund for the receipts and expenditures of circulating coins. A May 1996 Treasury IG report on the Mint's 1995 financial statements indicated that efforts to achieve full integration of the Mint's financial management system have been cumbersome and delayed.

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Second, we added additional costs of retirement for employees under the Civil Service Retirement System (CSRS) that are incurred by the government but not paid for by the Mint. According to actuarial estimates prepared by the Office of Personnel Management (OPM), the annual accruing cost of CSRS is about 25 percent of employees' salaries. In general, employees contribute 7 percent of their salaries toward system costs, leaving a cost of about 18 percent of salary to be borne by the government. However, employing agencies' contributions are limited to 7 percent of salary, and much of the remaining government costs (about 11 percent of salary) are covered by other government contributions to the retirement fund. About 49 percent of the Mint's employees who worked on the penny in fiscal year 1994 were under CSRS. We added 11 percent of labor cost for the time spent by CSRS employees working on the penny in 1994, which amounted to about \$100,000.

Table 1: Calculated Cost to Produce and Distribute the Penny as Adjusted by GAO for Fiscal Year 1994

Cost factors	Total cost (millions)	Unit cost (cents)
Production cost for 13.5 billion pennies	\$96.9	\$0.720
GAO adjustments		
Allocation of overhead and general and administrative costs based on number of coins produced, rather than direct labor	9.6	0.072
Recognition of all retirement costs for CSRS employees at the Mint working on penny production	0.1	0.001
Total production cost as adjusted by GAO	\$106.6	\$0.793

Source: GAO analysis of data provided by the Mint and OPM data.

We made no adjustments to the Mint's costs for metal and fabrication, direct labor, or transportation to Federal Reserve Banks. Multiplying the unit cost of producing a penny in fiscal year 1994—0.7 cents using the Mint's unit cost, or 0.8 cents using GAO's calculation of unit costs—by 13.5 billion units, we estimated that the Mint's profit, or seigniorage, was between \$28.0 million and \$37.7 million. Seigniorage is defined by the Department of the Treasury as the difference between the face value of a coin and the coin's cost of production. Seigniorage is treated as a reduction in the amount of money that must be borrowed from the public to finance the deficit.

As shown in table 2, multiplying these seigniorage estimates by the average borrowing rate in fiscal year 1994 of 6.897 percent results in an interest cost avoidance of between \$1.9 million to \$2.6 million for

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production of 13.5 billion pennies. However, as also shown in table 2, the Federal Reserve System incurred costs in handling the penny, that are not recognized by the Mint. According to the Federal Reserve System, in 1994, it received and distributed about 36 billion new or circulating pennies, at a cost of \$11.1 million. Deducting the Federal Reserve System's costs of handling the penny from the interest avoided by producing the penny in 1994 resulted in a net cost to the government of between \$8.5 million and \$9.2 million.

Table 2: The Cost of the Penny to the Federal Government, Fiscal Year 1994: The Mint's Cost and GAO's Adjustments to the Mint's Costs

Factors	Cost of the penny to the federal government (millions)
Face value of 13,459,070,000 pennies	\$134.6
Total production cost of the penny	\$96.9 to \$106.6
Amount of seigniorage (the difference between the face value of the penny and its production cost)	\$28.0 to \$37.7
The amount of interest the government avoided in producing the penny (seigniorage x 6.897 percent)	\$1.9 to \$2.6
Federal Reserve costs to handle the penny	\$11.1 ^a
Net cost to the government (amount of interest avoided less the Federal Reserve's costs to handle the penny)	(\$8.5) to (\$9.2)

^aFederal Reserve data was available on a 1994 calendar year basis.

Source: GAO analysis of data provided by the Mint and the Federal Reserve System.

Public Support for the Penny Is Mixed

Four surveys taken from 1990 to 1995 indicated that a majority of the responding public either supported retaining the penny or believed that the penny was useful.⁴ Public support for the penny ranged from 62 percent of respondents in 1990 to 76 percent in 1995, while support for eliminating the penny ranged from 18 percent in 1992 to 34 percent in 1993.

We contracted with the University of Maryland to conduct a public attitude survey on the penny in December 1995 and January 1996.⁵ In

⁴These nationwide, projectable polls included the 1990 Gallup, 1992 CNN/Time, 1993 ABC, and 1995 Opinion Research Corporation surveys. The Gallup survey asked respondents whether they favored discontinuation of the penny. The CNN/Time survey asked whether the U.S. should remove pennies from circulation. The ABC survey asked whether the penny is a useful coin, or whether the government should do away with it. The Opinion Research Corporation survey asked whether the government should remove the penny from circulation.

⁵The random, projectable poll surveyed 1,000 adults aged 18 or older, residing in telephone households in the continental United States.

comparison to the previous surveys, the University of Maryland results showed the lowest level of support for retaining the penny. Specifically, our 1996 University of Maryland survey involved two questions. One was, “Do you think that the penny is a useful coin or should the government do away with it?” The results were that

- 59 percent of respondents said the penny was useful;
- 35 percent said the penny should be eliminated; and
- 5 percent didn’t know.

The other question was, “When you buy things using cash, would you prefer that the total purchase price be rounded to the nearest nickel, making the pennies unnecessary?” The results were that

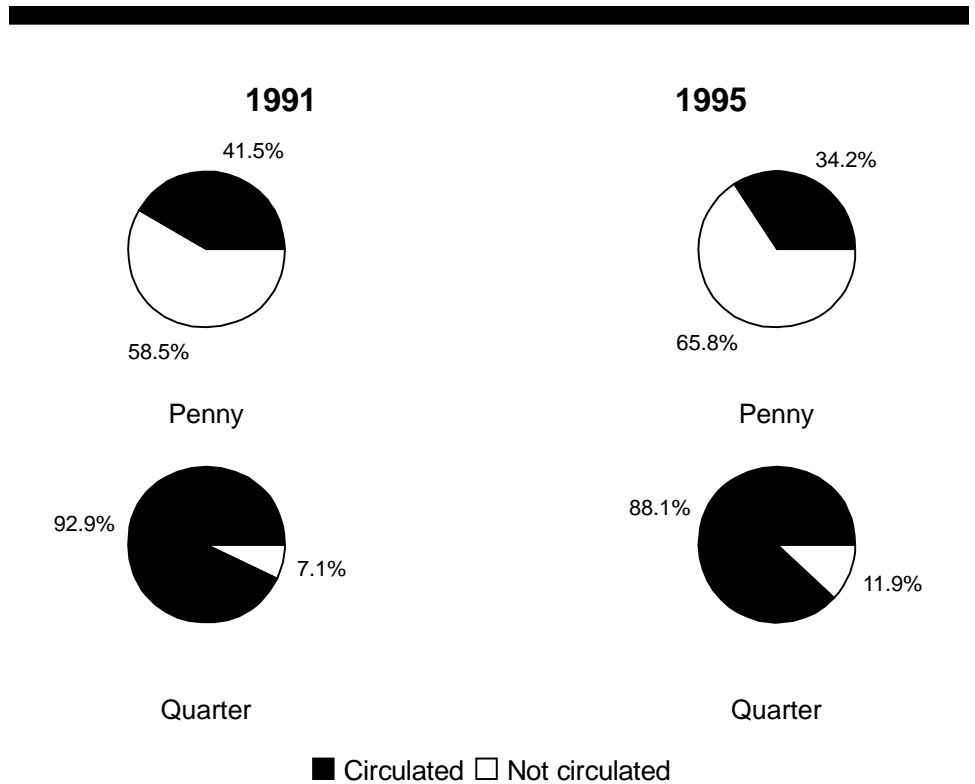
- 52 percent of respondents preferred that prices be rounded to the nearest nickel;
- 36 percent preferred using pennies; and
- 12 percent had no preference or didn’t know.

Federal Reserve System data showed that the penny does not circulate as much as other coins.⁶ For example, as shown in figure 1, in 1991, we calculated that the circulation rate for pennies was 42 percent, whereas the circulation rate for quarters was 93 percent. Our calculations showed that in 1995, the circulation rates were 34 percent for pennies and 88 percent for quarters. These numbers tell us that for almost two-thirds of the billions of pennies produced, the trip from the Mint to the Federal Reserve to the commercial banks and finally to consumers is a “one-way trip”—they are not seen again in circulation.

⁶We calculated the circulation rate by dividing the number of coins received by the Federal Reserve Banks by the number of coins paid out by the Federal Reserve Banks to commercial banks.

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Figure 1: Circulation Rates for the Penny and the Quarter, 1991 and 1995



Source: GAO's analysis of data provided by the Federal Reserve System.

As a result of the penny's low circulation rate, commercial banking institutions must continue to order new pennies to support their business customers. According to the Mint, from October 1993 through June 1994, shipments of pennies were 816 million below bank requests. Officials from two banks—one on the West coast and one in the South—told us they also experienced penny shortages in 1995. One bank official said that the shortage was very costly because the bank had to transport pennies from out-of-state. Officials from both banks said the penny shortage was not a

one-time event, but that it occurs periodically and resulted from the penny's low circulation rate.

Budgetary Impact of Eliminating the Penny Is Difficult to Quantify

According to the Mint, an immediate withdrawal of the penny could have a negative impact on the Mint, if the public decided to return billions of pennies. In Australia, for example, 25 percent and 35 percent, respectively, of the 1- and 2-cent coins that had been produced were returned over a 6-year period after they were discontinued. The Mint estimates that at least 132 billion pennies are currently in circulation, but neither Mint nor Federal Reserve officials said they could estimate how many might be returned. Mint officials said that they would incur costs to handle, store, and melt the returned pennies which might exceed their salvage value.

Mint officials also said that negative seigniorage could result from the return of pennies if existing money were given to the public in exchange. These costs would be offset to some extent by the Federal Reserve System's avoidance of the cost to handle pennies and the scrap value of the metal salvaged from returned pennies. Mint officials also said that they did not know how much of the overhead costs now absorbed by the penny would be allocated to other coins. In discussing the budgetary impact of eliminating the penny with Mint officials, they suggested that such an analysis should also include the benefits provided by the reduced government borrowing resulting from the stock of pennies in circulation, which they estimated to be \$18 million. We agree the interest avoided from the remaining pennies in circulation if the penny were eliminated should be treated as an offset to the cost of eliminating the penny. Because of the many uncertainties involved, we were not able to quantify the specific budgetary impact of eliminating the penny.

Operational Impact on the Mint of Eliminating the Penny

According to Mint officials, eliminating the penny would not enable them to close down either the Denver or Philadelphia facilities, which are used to mint other circulating coins, but might allow them to reduce the number of shifts from three to two. The Mint uses presses purchased in the 1960s and 1970s (called Bliss presses) to make pennies. According to the Mint, Bliss presses could not be efficiently used to mint other coins.

Other Economic Impacts of Eliminating the Penny

Eliminating the penny would result in the loss of some jobs and revenue for the two contractors who produce penny blanks. Alltrista Zinc Products Company of Greenville, Tennessee, and LaSalle Rolling Mills of LaSalle, Illinois, manufacture penny blanks for the Mint. Alltrista employs about

280 people in its zinc operation, while LaSalle employs about 110 people. Alltrista estimated that penny elimination would cause about a 40-percent job loss, or 112 employees. LaSalle said that it would probably have to shut down if the penny is eliminated since 94 of its 110 employees work on the penny.

Eliminating the penny would not appear to adversely affect the mining of zinc, since penny production represents only a fraction of total domestic zinc consumption. According to data provided by the Mint and the U.S. Geological Survey, in 1995 the penny represented 2.7 percent of total U.S. zinc consumption. According to the American Zinc Association, the United States produces about 30 percent of the zinc it consumes, and if the penny were eliminated, the same amount of domestic zinc mining could continue, since the United States does not produce enough zinc to meet domestic demand. This suggests that, if the Mint stopped producing pennies, the demand for zinc mined for pennies could be replaced by the demand generated by other domestic uses so that no zinc mining jobs should be lost in the United States.

According to Americans for Common Cents, an organization that has been formed to encourage the continued production of the penny, the discontinuation of penny production could result in the loss of (1) 356 jobs in the zinc refining and smelting industry, (2) \$700,000 in sales of chemicals used for penny production, (3) \$1.2 million in wages for truck drivers who transport penny blanks to the Mint, and (4) an unknown number of railroad jobs from a decrease in rail shipments from Alltrista to the Denver Mint and in transportation of slab zinc to refining and smelting operations. We did not verify these estimates.

We also contacted tax officials from Virginia and Maryland to ask whether eliminating the penny would create problems in collecting sales taxes. Officials from both states said that rounding sales taxes to the nearest nickel would not be a problem.

We asked five charitable organizations what effect they expected the elimination of the penny would have on donations. One of the five charitable organizations said that eliminating the penny could negatively affect donations. Three said that they expected people would donate higher denomination coins instead of the penny, and one said they did not know if people would donate higher denomination coins.

We also contacted a judgmental sample of banks to determine what costs they incur and pass on to their customers to handle the penny. We contacted 22 banks located in both rural and urban areas as well as in different geographical areas of the United States. The banks reported that they could not quantify the percentage of the amount of money paid to armored carriers for coin and currency transportation that was expended on the penny. However, they indicated that their cost to purchase rolled coins from armored companies or other financial institutions ranged from 2.5 cents to 5 cents per roll, regardless of denomination.

The banks also reported that the fees they charged businesses to verify deposited coins ranged from \$1.25 to \$5 per standard bag of the same denomination (a standard bag for pennies contains 5,000 pennies with a total value of \$50) and up to \$10 a bag for mixed coins.

Environmental Impact of Producing and Disposing of Pennies

Although the mining of heavy metals such as zinc may cause leaching of minerals into water streams and zinc smelting generally creates air pollution, an EPA official said that the amount of zinc mined to produce pennies is insignificant when compared to other mined metals. In addition, the disposal of pennies does not appear to be an environmental problem. According to a recent EPA report on municipal solid waste, no coins (including pennies) were identified as components of landfills.⁷ Moreover, officials from EPA, the Natural Resources Defense Council, and the National Solid Waste Association were unaware of any environmental problems associated with the disposal of pennies. According to a study by the Garbage Project at the University of Arizona, households threw away about 3 pennies per year from 1980 to 1986, the most recent years for which data was available.

An Approach to Rounding Prices for Cash Transactions

If pennies were eliminated, one suggested approach to rounding prices was contained in a bill (H.R. 3761) introduced in 1989 by Rep. James Hayes of Louisiana. This bill would have exempted from the rounding requirement transactions for which payment was made by check or negotiable instrument, electronic fund transfer, money order, or credit card. This bill would only have applied rounding to the nearest 5-cent price after discounts and sales taxes were computed. Therefore, individual goods would have been priced in cents. This proposed legislation provided a framework under which, in theory, one-half of the total number of cash

⁷Characterization of Municipal Solid Waste in the United States: 1995 Update, March 1996. The report identified components representing at least one-tenth of one percent of landfills.

purchases would have been rounded up and one-half would have been rounded down. If the total price ended in 1,2,6, or 7 cents, the total price would have been rounded down. If it ended in 3,4,8, or 9 cents, it would have been rounded up.

In 1990, we reported that, in 1980, the U.S. Army in Europe asked the American military facilities in Europe to eliminate the penny because of the expense of transporting the coins there. All but three facilities—the Post Office, the commercial bank, and the Finance Office—agreed to the change. These three facilities were bound by regulations that would not allow them to round prices. The commissaries and Army and Air Force Exchange Service facilities welcomed the coin's elimination and said that they were not adversely affected by it. Officials said that, while a few complaints were received initially, as customers became familiar with the rounding policy, complaints decreased and then were rarely received. However, officials said that the facilities often rounded down to minimize complaints. Also, we reported that, while the facilities did not give pennies as change, they accepted pennies if people wanted to pay with them.

Conclusions

The penny, with its small purchasing power, is used mainly to make change in our monetary system and generally is not returned to circulation after its initial receipt by the public. When considering the Federal Reserve System's penny handling costs, pennies were not profitable for the government to produce and distribute in fiscal year 1994. The net cost to the government for the penny ranged from \$8 million to \$9 million in fiscal year 1994, which is not a substantial cost.

Public opinion on the usefulness of the penny is mixed. According to our recent poll, while over half of the respondents would prefer rounding to using pennies, a similar percentage also believe the penny is useful and should be retained. However, the public does not return most pennies back to circulation after they are initially distributed by the Federal Reserve System. In theory, rounding could be designed to be fair so that one-half of the transactions would be rounded up and one-half rounded down. However, the public may remain concerned that merchants would try to round prices in their favor.

Because many factors about the budgetary effect of eliminating the penny are not known, it is not possible to calculate the budgetary impact of withdrawing the penny from circulation. While it is possible to estimate how much seigniorage is generated by pennies in circulation that would be

lost if the penny were eliminated, it is not known what portion of the pennies in circulation would be returned and whether the Mint would incur a substantial cost. Further, it is not known how overhead currently allocated to the penny would be reallocated to other coins or the extent to which the Mint's total labor costs would be reduced.

Options for Congressional Consideration

In determining the future of the penny in our economy, the various factors we have highlighted today warrant congressional consideration—the cost to the government, public attitudes, possible budgetary impact, the loss of jobs to Mint contractors, and the fairness of rounding. In analyzing these factors, we found no clear path that would lead either to a substantial financial benefit to the federal government or a clearly expressed preferred course of action by the American public. Within this context, however, we identified the following three options with respect to the future of the penny for congressional consideration.

One option would be to stop producing the penny and round all cash transactions. H.R. 3761, introduced in 1989, provided a specific approach for this option. Among the pros of this option are that it would allow the government to stop losing some money on the penny's production and handling activities and that cash transactions between sellers and buyers might eventually become quicker by eliminating the time spent associated with handling pennies. Among the cons are that people would be forced into having prices rounded, the government might incur a significant one-time cost from returned pennies, and contractors producing the penny blanks as well as those in related businesses would be adversely affected.

A second option would be to continue with the penny. Among the pros of this option are that the public is accustomed to the penny and that Americans have traditionally resisted changes in their monetary system. Among the cons are that the government would continue to lose money on the penny's production and handling (although not a substantial amount) and that some people may continue to be inconvenienced by what they consider to be a nuisance coin.

A third option would be to make the rounding of cash transactions an option to the consumer. Under this option, consumers could elect to have cash transactions rounded to the nearest 5-cent price or to use exact change, and the merchant would have to accept the consumer's choice. One way to do this would be to adopt the rounding rule in H.R. 3761. Among the pros of this option are that consumers would continue to have

the choice of using pennies and that cash transactions between sellers and buyers might eventually become quicker if prices were rounded by eliminating the time spent on handling pennies. In this situation, demand for the penny might decrease over time, and the government could then phase out the penny, with reduced potential for significant one-time costs from returned pennies. A con of this option might be that consumers could try to game the rounding system to their advantage at the expense of the merchant; for example by opting to round only in those situations where the final purchase price ended in 1, 2, 6, or 7 cents. Another con might be that consumers would question whether price adjustments had already been made to overcome or adjust for their option to round down.

Agency Comments

We discussed our facts, conclusions, and options with the Director of the Mint and the Assistant to the Federal Reserve Board on July 11 and 12, 1996. The Mint Director and Mint officials said that they would have used a different methodology, including a multi-year approach, to address the issue of whether the penny should continue to be produced. They indicated that they would have (1) combined the analysis of penny production and distribution costs which we discussed on pages 3 and 7 with the budgetary impact of eliminating the penny, which we discussed on pages 11 and 12, (2) included as a benefit of retaining the penny, the savings produced by the existing stock of pennies in circulation, and (3) recognized the income taxes paid by the Mint's contractors who work on the penny as a benefit of retaining the penny. The Mint officials said that they could not quantify what specific effects these changes would have, but they were confident that such an analysis would show that continued penny production would be more profitable to the government than elimination of the penny.

Although we realize that there are a number of ways to analyze the economics of whether the penny should be continued and each methodology has limitations, we chose the methodology we used to respond to the questions as raised by the Subcommittee Chairman, which dealt with the government's cost to produce and distribute the penny and the budgetary impact from eliminating the penny. As already discussed, we were not able to quantify the budgetary impact because of the many uncertainties involved. We did not include the savings produced from the existing stock of pennies in circulation because our objective was to review the cost of producing the penny in 1994, and we counted as a benefit the savings resulting from the pennies produced in that year. We agree that had we selected a multi-year methodology, it would have been

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appropriate to accumulate the savings of all pennies produced during the period selected. However, we also would have considered the Federal Reserve's penny handling costs over that multi-year period. We did not consider the income taxes paid by Mint contractors as a revenue to the government in determining the cost of producing and distributing the penny because these amounts could not be quantified and it is unknown whether these industries would be unable to replace the Mint business with other sources of revenue.

The Mint officials also said that they did not believe overhead and general and administrative costs should be allocated on the basis of the number of coins produced because the Mint has less work to do in minting pennies than other coins. We did not mean to imply that the Mint should revise its allocation of overhead and general and administrative costs to a different basis. We provided this allocation as an alternative to show what impact it had on estimated costs. As shown on page 7 of our statement, it had very little impact—it increased the net cost of producing and distributing pennies to the government from \$8.5 million to \$9.2 million.

The Assistant to the Federal Reserve Board said he generally agreed with our methodology, analysis, and options.

Mr. Chairman, that concludes my prepared statement. We would be pleased to answer any questions.

Scope and Methodology

To determine the government's cost to produce and distribute the penny in 1994, we obtained and reviewed cost information from the two agencies involved—the Mint and the Federal Reserve System. We also reviewed the Treasury Department's Inspector General (IG) reports on the Mint's audited financial statements for 1994 and 1995, which discussed weaknesses in the Mint's cost accounting system. In addition, we interviewed Federal Reserve System officials and obtained data on penny handling costs. We computed estimated production and distribution costs of the penny using Mint and Federal Reserve System costs, adjusted for (1) an allocation of Mint overhead cost based on the number of coins produced by denomination, and (2) an allocation of federal retirement costs for workers under the Civil Service Retirement System (CSRS) that are not paid by the Mint. Our estimate was based on data provided for fiscal year 1994.

To assess public opinion toward the penny, we obtained and reviewed recent public opinion polls and contracted with the University of Maryland to conduct a public opinion survey in December 1995 and January 1996. We also contacted officials from Australia and New Zealand regarding their reasons for eliminating their 1- and 2-cent coins. In addition, we toured the Philadelphia Mint, the Baltimore Federal Reserve Branch, and a contractor-operated coin depot to view the production and handling of pennies.

To obtain data on the possible economic impact on organizations other than the Mint, we contacted zinc and the penny blank manufacturers regarding possible job losses that could result from eliminating the penny. We also interviewed tax officials from Virginia and Maryland to obtain their views on whether eliminating the penny would affect the collection of state sales taxes. Further, we contacted a judgmental sample of financial institutions of different sizes and in different geographic locations, to obtain information on their penny handling costs and fees charged to their customers.

We also contacted five charitable organizations that were identified in the press as collecting pennies, to obtain their views on whether eliminating the penny would negatively affect donations. These five organizations were the Salvation Army, the Kindness Foundation, Ronald McDonald Charities, the Muscular Dystrophy Association, and Common Cents New York.

Appendix I
Scope and Methodology

To obtain views regarding possible environmental problems caused by the production and disposal of pennies, we interviewed officials from the Environmental Protection Agency (EPA), the Natural Resources Defense Council, and the National Solid Waste Management Association, as well as a solid waste expert from the University of Arizona. We obtained domestic zinc consumption and mining data from the U.S. Geological Survey.

We did our work from September 1995 to July 1996 in accordance with generally accepted government auditing standards.

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